Economic Governance, Ideas, and EMU: What Currency Does Policy Consensus Have Today?

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Introduction

One of the most important questions facing policymakers and scholars working in the macroeconomic policy realm is the following: what are the political underpinnings of successful economic cooperation? The creation of Economic and Monetary Union in Europe (EMU) has been one of the most stunning examples of such cooperation. In my 1998 book, *The Currency of Ideas,* I argued that the critical foundation for progress in European monetary integration is the economic policy convergence that occurred across the majority of the European governments beginning in the mid-1970s and solidifying in the 1980s.one necessary condition for exchange rate cooperation in the run-up to EMU was an ideational consensus about the most appropriate goals and instruments of monetary policy. This seminar provides an welcome opportunity to revisit that argument and assess what role ideational consensus may play in sustaining economic governance more generally in the European Union (EU) as it faces a multitude of challenges now that the Euro area is a reality.

My tentative assessment is that the essential consensus on the virtues of monetary stability among political and technocratic elites has endured, became institutionalized in the ECB and is providing a solid foundation for the operation of EMU. However, there are a host of new areas of important and ongoing concerns where consensus is more elusive, for example along the lines of the "one size fits none" critique of ECB monetary policy. Also problematic are new policy areas, where such consensus is crucial to the economic governance of EMU, but where ideational agreement is lacking. Here, divergence of views about fiscal policy coordination seems to be the most consequential issue, with related concerns about political authority and legitimacy as also impacting the sustainability of EMU.

This essay proceeds as follows. The first part of the paper outlines my original argument regarding how material and ideational factors interact to make political cooperation on monetary matters more or less likely, explaining variation in exchange rate cooperation prior to EMU. The next section then extends my original argument to draw out the implications of the model for situations of highly institutionalized cooperation such as economic governance of EMU, and suggests some analytical expectations about the current situation in the EU. I then assesses the contemporary European situation, looking for clues about the state of the consensus and highlighting points of contention within the ECB. The paper concludes by proposing that while the central consensus on monetary policy is still robust among key economic policy actors and is highly institutionalized in the ECB, many of the other issues related to economic governance are significantly contested and will require immense amounts of political will and imagination to manage.

Policy Consensus: Origins and Effects

One of the interesting empirical puzzles of postwar European monetary history has been the variation over time in levels of cooperation, from the relative exchange rate stability of the early post-war international Bretton Woods regime, to the instability and eventual collapse of the European-only “Snake” regime of the 1970s, to the gradual exchange rate stabilization of the European Monetary System (EMS) (1979-1999). My book explained this variation as a product of the interaction between the level of capital mobility over time and changes in the ideas policymakers had about monetary policy. In this section, below, I summarize my basic argument.[1]

Capital Mobility and the Menu of State Choice

A good starting point for understanding the political underpinnings of EMU is the observation that changes in the world economy, particularly the level of capital mobility, have reconfigured the set of options governments face when pursuing monetary cooperation. A variant of the Mundell-Fleming model, a central framework in modern macroeconomic theory which has become well accepted among policymakers today, is a useful way to describe why this was so. This theoretical proposition is formally known as Mundell's "assignment problem," but is often referred to as the "Holy" or "Unholy Trinity". It sketches out the interaction between domestic policy choices and multilateral exchange rate cooperation as capital markets become increasingly integrated and the volume of capital flows rises. According to this proposition, policymakers can choose only two of the three following policy options at any one time: free capital flows; a fixed exchange rate; and monetary policy autonomy. Thus, if a government wishes to keep its exchange rate fixed in the context of international capital mobility, national monetary policy must be used to maintain the exchange rate parity and cannot be directed towards other internal goals.[2]

Mundell's framework does not dictate which two of the three policy options states will choose at any point in time, however, it merely outlines the logical incompatibility of having all three simultaneously. It also provides a useful framework for interpreting the broader history of international monetary regimes, as shown in Figure 1.

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[1] The following section draws on McNamara, *The Currency of Ideas: Monetary Cooperation in the European Union* (Ithaca: Cornell University Press, 1998) and on my article, “Consensus and Constraint: “ *Journal of Common Market Studies* (September 1999). For a complete list of references, please consult those works.

[2] Robert Mundell, "The Monetary Dynamics of International Adjustment Under Fixed and Flexible Exchange Rates," Quarterly Journal of Economics 74 (1960), pp. 227-57.

Figure 1
Capital Mobility and International Monetary Systems:
The Holy Trinity in Historical Perspective[3]

Economic Policy Options

Monetary Regime	Capital Mobility	Autonomous Monetary Policy	Fixed Exchange Rates/Cooperation
Gold Standard	YES (High)	NO	YES
Bretton Woods (1945-71)	NO (Low levels)	YES	YES
European Currency Snake (1973-78)	YES (Rising)	YES	NO (attempted, but failed)
European Monetary System (1979-present)	YES (High)	NO	YES

Note: Only two of the three policy options can be met at any one time.

To understand how European governments have gone about choosing policies given the trade offs Mundell's framework outlines, it is helpful to start with the Bretton Woods international monetary regime as a baseline. The Bretton Woods system, which included, among others, all the states of what is today the European Union, was created in 1945 and lasted until 1971. Responding to domestic political necessities and supported by American hegemony, Bretton Woods was set up by British and American policymakers so as to allow policy autonomy to coexist with fixed exchange rates in what John Ruggie has called the "compromise of embedded liberalism".[4] "Embedded liberalism" refers to the idea that Bretton Woods was liberal in the sense of encouraging international

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[3] Detailed empirical support for this classification can be found in Chapters 4-6 of McNamara (1998). The original figure did not include the coding of the Gold Standard regime.

[4] John G. Ruggie, John Gerard Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order," International Organization 36 (Spring 1982), pp. 195-231 (1982)

economic transactions, but its liberalism was tempered by, or "embedded" within, a larger social context of goals beyond economic efficiency, in contrast to the laissez-faire approach of the nineteenth century. But the only way to ensure this intention could be realized was to limit capital movements within the system; indeed capital controls were a major preoccupation of John Maynard Keynes when designing Bretton Woods. Thus, autonomous monetary policy, fixed rates and low levels of capital mobility marked the Bretton Woods years.

The resurgence in international capital mobility in the late 1960s and early 1970s, aided and abetted in part by government action or inaction therefore had serious consequences for the European governments' efforts to sustain a fixed exchange rate regime. When the Snake was created in 1973 in the wake of Bretton Woods, oil shocks, and stagflation, the rising level and mobility of capital flows was beginning to make the pursuit of fixed exchange rates conditional upon the surrender of monetary policy autonomy. In other words, the domestically-driven compromise of embedded liberalism, which allowed states to expand and contract the national money supply in the quest for full employment and economic growth, could no longer form a basis for multilateral monetary cooperation within a fixed exchange rate regime. As per Mundell's axiom, capital flows were simply becoming too high to continue to coexist with fixed rates and policy autonomy.

As is discussed at length in Chapter 5 of my book, many of the European governments did continue to use autonomous, Keynesian macroeconomic policies oriented to the particular needs of their domestic polities throughout the Snake period, making the maintenance of fixed exchange rates extremely difficult. By the time of the creation of the European Monetary System in 1979, however, key European governments, most importantly France, had begun to eschew domestic policy autonomy, and this domestic political shift, while not complete, formed the basis for the achievement of relatively fixed exchange rates in the EMS.[5] In terms of the basic policy characteristics of Mundell's framework, the EMU harked back to the Gold Standard, when capital flows co-existed with exchange rate stability but at the price of domestic monetary autonomy.

Mundell's framework helps make sense of how capital mobility interacts with national monetary policymaking and monetary cooperation. Yet it only sets the structural conditions under which governments decide on policy. It does not tell us what choice governments will make when faced with these three incompatible policy goals. Although costly, governments can choose to limit capital mobility in order to regain some policy autonomy and stable exchange

[5] For data in support of the increasing degree of nominal exchange rate stability over this period, see McNamara (1998) Tables 1 and 2. Of course there have been episodes of currency crises as well, precipitated both by political uncertainties and the imperfect convergence in the economies of the EU under conditions of mobile capital.

rates. Governments also can choose to float their rates rather than keeping them fixed, as in the case of those governments that left the Snake. Indeed, many of Bretton Woods former members moved to floating exchange rates after that system's collapse and have never gone back, and the absence of an international fixed exchange rate regime has not proved incompatible with rapidly increasing global trade and investment. Left unexplained in this structural approach, therefore, is how governments calculate the trade offs inherent in economic policymaking, and in the European case, why governments were prepared to abandon embedded liberalism in the area of monetary policy.

The Ideational Shift Towards Neoliberalism

My theoretical argument is that it was not functional, material conditions that *directly* caused the shift in many European policymakers' views about monetary policy. Rather, that shift needs to be understood as a socially constructed, or ideationally forged, change in views. While the international economic environment creates sets of "real" challenges for policymakers, it does not directly instruct them as to the correct answers. Rather, the meaning of those economic challenges, their interpretation and analysis, will all be mediated by the cultural and ideational setting that policy actors exist within at a particular point in time and place on the globe. In the macroeconomic realm, policymakers' shared normative and causal beliefs about the nature of monetary policy, generated by social processes of interaction, will inform their reaction to material conditions. In Europe of the late 1970s and early 1980s, a neoliberal policy consensus that elevated the pursuit of low inflation over growth or employment replaced the Keynesian beliefs of political elites, ultimately contributing to a downward convergence in inflation rates across Europe. This monetary policy consensus redefined state interests in cooperation, underpinned stability in the EMS, and induced political leaders to accept the domestic policy adjustments needed to stay within the system. Though this monetarist-influenced consensus was by no means unwavering or monolithic, it represented a clear break with the divergent economic policy paths and diverse priorities of Keynesianism as practiced by the European states during the Bretton Woods era. For students of politics, this European reorientation is particularly notable because it occurred across most of the EU states, regardless of political party or domestic institutional structure.[6]

These neoliberal beliefs, held by key political leaders, centered on the need to prioritize price stability above all other goals. The specific contentions can be characterized as follows: first, expansionary monetary policies used in the hope of stimulating demand and employment will instead produce inflation and inflationary expectations and are thus counterproductive. Such policies will also

[6] Policy consensus has been noted by others as key to the progress of European integration, including Sandholtz and Zysman, 1989; Pauly, 1991-92; Moravcsik, 1991; Sandholtz, 1993, Verdun, Marcussen.

prompt financial markets to drive down the exchange rate, further worsening inflation and creating balance of payments problems.

Second, high and varying rates of inflation are incompatible with growth and employment, in contrast to the assumptions of the Phillips Curve, which posited an inverse relationship between inflation and unemployment. Instead, the neoliberal consensus posits that inflation creates uncertainty over future price levels, high nominal interest rates, and falling financial asset values which all dampen business and spending activity, producing low levels of economic growth. Thus, growth and employment can only come about if inflation and inflationary expectations are brought under strict control. The larger implication is that this is best achieved by governments committing themselves *not* to intervene in the economy with expansionary policies, but instead to abjure short term activism and set macroeconomic policy in a medium term frame to contain inflation.

The new European neoliberal policy consensus differed from the embedded liberalism of the Bretton Wood system in two key ways: it entailed a much higher level of conformity among nations in the goals and instruments of monetary policy; and it was based on more orthodox liberal principles than its predecessor. Yet the policy shift was not driven by a purely ideological commitment to these orthodox principals, but was instead a politically and historically contingent response by government leaders concerned about the deteriorating position of their economies in an increasingly open and competitive world economy. Although there are parallels, it differs substantially from the classical liberalism of the gold standard era, because of the extent of both democratic participation and government intervention in the present era.[7]

What caused this historic policy consensus? I argued that it arose from three key elements which, when translated through the domestic political arena and reinforced through institutionalized interactions within the EU, produced policy change. The first was the perceived failure of Keynesianism in the wake of the stagflation of the first oil crisis. The widespread perception of crisis created space for political leaders to implement reforms without eliciting significant opposition from those groups in society, such as labor, that traditionally opposed such austerity measures. This perception of policy failure gave greater salience to the second crucial factor that produced the neoliberal consensus: monetarist theory. In this context of crisis, monetarism provided an alternative policy paradigm to guide the movement away from Keynesianism, and its prescriptions appealed to policymakers by addressing both the changed economic environment and their political needs. Monetarism offered policymakers a coherent lens through which to view their experiences with macroeconomic

[7] Philip Cerny (1994) has made a somewhat similar argument more generally beyond the European case. He calls this policy consensus "Embedded Financial Orthodoxy."

policy while offering a legitimizing framework that made austerity reforms politically viable. It is important to note, however, that the governments of Europe followed a *pragmatic*, not ideologically purist, type of monetarism. This is evident in the fact that while monetary targets were widely adopted among the European governments, they were not the exclusive objective of monetary policy. Whereas monetarist theory would argue that exchange rates should be allowed to float, as the only appropriate policy target is the money supply, the European governments viewed the fixing of their exchange rate to the German mark in the EMS as a way to reinforce the attempt to reduce inflation.

Finally, the example of German success with a pragmatic version of monetarist policies was the third factor in the neoliberal turn. The experience of the German Bundesbank with restrictive, anti-inflationary policies offered a powerful and persuasive example of the merits of pragmatic monetarism for other EU central banks to emulate and strengthened the role of the mark as the anchor currency of the EMS. While most of Europe was struggling with stagflation after the first oil crisis, West Germany stood out as successful in managing its economy, particularly in terms of inflation and employment. Bundesbank officials were not hesitant to make known their views on the important of price stability, proselytizing the merits of restrictive monetary policy to their EU neighbors

The increasingly embedded institutional context of policymaking in the European Community aided the collective change in beliefs about monetary policy and European exchange rate cooperation by providing a medium for the transmission of ideas. This was particularly true in terms of the processes of monetarist policy paradigm diffusion and German policy emulation, in which interactions among the national representatives in European fora, be it ECOFIN or the Committee of Central Bank Governors, proved quite important. While ideational changes occurred at the level of domestic political actors, the institutions of the EC played an important role in fostering the consensus that underpinned the EMS by providing the medium within which the shared beliefs could be formulated and solidified.

The Politics of Monetary Integration Today

So how does all this apply to what has happened since EMU began, after my book was published? In this second part of this essay, I will take each element of my argument and briefly suggest what has changed, what persists, and how it matters for the sustainability of EMU.

Capital Mobility and Monetary Cooperation

The first element of my story concerned the rise of capital mobility over the last two decades. Global capital mobility has continued to rise overall since EMU began, and within the single market itself, financial liberalization has recently

deepened in the EU. [8] So it would intuitively seem that the constraint I originally wrote about would be increasing as well. However, when the currencies of the participating European states were replaced by the Euro, exchange rate cooperation (my original dependent variable) among those states was no longer at issue, of course. In effect, Mundell's Holy Trinity is no longer at play within the Eurozone itself, as exchange rates are now merged into a single currency.

Figure 2
Capital Mobility and International Monetary Systems:
The Holy Trinity in Europe Today

Economic Policy Options

Monetary Regime	Capital Mobility	Autonomous Monetary Policy	Fixed Exchange Rates/Cooperation
Economic and Monetary Union (1999-)	YES (High)	Joint Monetary Policy	Not applicable
Post-Bretton Woods "Non-system"	YES (HIGH)	YES	No (Euro not fixed against other currencies)

Note: Only two of the three policy options can be met at any one time.

Outside the Eurozone, however, the two out of three policy options still very much apply, however. In that sense, Europe has found a way, in effect, to structurally be in a situation where the "embedded liberalism" of the Bretton Woods situation, where monetary policy can be directed towards internal, domestic needs. However, the difference is that the exchange rate can no longer be stabilized without such a commitment to direct monetary policy only toward that exchange rate target, given the changed world of international finance. The Euro's dramatic fall and rise against the dollar since its inception seems to demonstrate that policymakers are choosing the 2 out of 3 policies as coded in Figure 2, above. But this simple categorization of EMU as an international monetary regime does not tell us much of interest in terms of the internal workings of EMU. For that, we need to move to the second element of my argument.

[8] Elliot Posner, *Enterprising Bureaucrats: The Supranational Origins of Europe's New Stock Markets*, Book MS, George Washington University, 2006.

Does Policy Consensus Still Matter?

Policy consensus was the second important element in my story about the foundation for exchange rate cooperation and monetary integration. While no longer *necessitated* by the constraints of Mundell's assignment problem as long as the Euro floats, policy consensus on the specific content and strategies of governance is potentially likely to continue to be important in the conduct of joint monetary policy in EMU. But the exact ways in which ideas come into play may be different given the highly institutionalized environment of the ECB and EMU in contrast to the intergovernmental regime of the EMS. Given the changed political, economic, and institutional environment under which monetary policy is formulated and executed in the EMU as opposed to the EMS era, what analytic expectations might we have about the need for ideational consensus in EMU?

First, with the consolidation of exchange rates into one currency, the need for ideational convergence to maintain currency stability across the EU monies disappeared (as depicted in Figure 2 above). Counterintuitively, perhaps, there thus may be *more* room in an institutionalized EMU for disagreement as monetary policy becomes subject to policymaking within the Governing Council, rather than depending on national governments' unilateral policy decisions to support their exchange rate commitments in the fact of rising capital mobility.

A persuasive counterargument would be that for the ECB to function there still remains a need for member state representative to have some level of agreement about what constitutes good monetary policy. It is hard enough to reach agreement in the Governing Council given the variety of economic situations across the states of the EU: a lack of agreement among policymakers about the appropriate goals and instruments of monetary policy would severely exacerbate the difficulties. A long literature on macroeconomic policymaking has demonstrated the problems that occur when policymakers don't agree on the model (Cooper). In this view, some broad consensus must exist on the appropriate goals and instruments of monetary policy for the ECB to function effectively.

A second key change pertinent to our discussion that has occurred with the move to EMU is a shift in who constitutes the set of authoritative political actors in this policy realm. With the creation of the ECB, there has been a move away from the political elites who (in tandem with central bankers) made key policy choices in the grand bargains and Ministerial conferences in the run-up to the Euro to an independent central bank that has sole legal responsibility for the development of monetary policy. The high legal degree of independence of the ECB is bolstered by the fact that there are no countervailing, strong EU level political institutions to balance its authority in the macroeconomic policy sphere. Even in countries with historically strong central banks, such as Germany or the United States, these institutions have always been embedded within a broader

institutional network of interlocutors, both legislative bodies, an executive, and finance or treasury ministries. The ECB thus seems a more insulated and independent institution than even a traditional national central bank. If it is staffed by professionals largely educated and socialized along similar lines, consensus is relatively likely in the ECB as national policy traditions become less dominant over the past decades of monetary cooperation. Here the findings of a systematic sociological studies of the ECB professional staff would be helpful, but I am unaware whether they exist. Initially, my own research found that North Europeans, particularly Germans and Dutch economists, were disproportionately staffing the ECB, in part because of locational and language issues according to my interviews there. But a systematic treatment of nationality, training and education is necessary to assess the likely development of consensus based on homogenous professionalization.

A caveat to the assertion that increased institutionalization means increased consensus and thus better policy outcomes is the possibility that too much consensus in a highly formalized institution many become dysfunctional. Rarely considered is the potential for a too rigid set of ideas to create dysfunctionality in an institution, when a ‘group think’ dynamic keeps policymakers from adapting and changing their ideas as circumstances may warrant (see Barnett and Finnemore’s 2004 work on international organizations). Certainly, some have argued that the ECB may be suffering from too much consensus around tight money, rather than too little, and that this may be the source of political instability.

In sum, policy consensus is likely to still be an important political foundation for EMU, but not in the same ways that it was before the single currency. It is possible that with institutionalization and a single currency, more divergence in views might be tolerated than when markets where passing minute by minute judgment on the exchange rate commitments of EMU participants. We also might expect that policy consensus may develop more readily within the institutionalized environment of the ECB, as the technocrats take charge. However, it is important to also note the point that too much consensus may act as a drag on policy innovation and adaptation in EMU.

What of Policy Consensus within the ECB?

Having assessed the question of whether consensus still matters and answered provisionally in the affirmative, we should next ask if the original consensus has increased, stayed the same, or is it showing signs of contestation. Are there any new, important cleavages across the key actors with the arrival of the single currency?

The ECB is legally based on a set of rules that codifies the original consensus I outlined above, and these directly inform its actions, so we would

expect that the consensus might be robust.[9] The Maastricht Treaty states that the ‘primary objective’ of the European Central Bank is ‘the maintenance of price stability’ (Article 105 TEC). The ECB must also ‘support the general economic policies in the Community’ but only ‘without prejudice to the objective of price stability.’ Price stability is not defined by the Treaty in quantitative terms, however. Indeed, it is difficult to argue that the ECB has pursued a lax monetary policy over the past five years. Instead its interest rate decisions seem to have largely reflected this stated commitment to price stability rather than an emphasis on growth and employment, or on stabilizing the fluctuating Euro in world markets.[10]

Legal rules do not shape the entirety of EMU policymaking, however, as Maastricht leaves much open for evolving practice, and creates the conditions ripe for ideational disputes. This is particularly true in several areas. First, there is a legitimate disagreement over what constitutes an acceptable level of inflation. At various points in time, internal debates have flared up within the monetary policy community over what should be the upper limit of what is tolerated. One such episode occurred around the ECB’s early 2003 review of this issue and publication a statement in May 2003 where the Governing Council stated that in the pursuit of price stability it will aim to maintain inflation rates, below, but close to 2% over the medium term. It is important to note that this is a social process of preference definition: historically, of course, views about what constitutes a dangerous level of inflation have varied tremendously, and the close to two percent view which seems to hold sway among many central bankers is extremely low in historic terms.[11]

In addition, the (no doubt appropriate) lack of legal direction in the Treaty over what type of monetary instrument should be used has created a lively debate within the ECB. The Executive Board early on developed a two track operational approach. The first strategy is monetary targeting, in which the amount of money flowing through the European economy is measured, and the central bank adjusts its policies to achieve a set money supply goal. The second strategy is inflation targeting, the identification and publication of an inflation target that is used by the bank to guide policy. Both these strategies have their critics and adherents. When these strategies are used together, some critics claim there is a danger that the objectives of policy may be too opaque for observers to determine what they are and if they are being met.

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[9] See McNamara, “Where Do Rules Come From? The Creation of the European Central Bank,” in Alec Stone Sweet, Wayne Sandholtz, and Neil Fligstein, *The Institutionalization of Europe* (Oxford University Press, 2001).

[10] I would welcome seminar participants help on citations of the key studies of this question.

[11] McNamara, “Rational Fictions? Central Bank Independence and the Social Logic of Delegation,” *West European Politics* (January 2002).

The debates in the Governing Council over the instruments of monetary policy--whether to use monetary targeting or inflation targeting--are in the view of some more about accountability than technical merit. Some Governors apparently view inflation targeting as more transparent than a monetary target, and want to be sure to include it for that reason. As most central banks use a pragmatic mix of the two policies, it seems likely that different perceptions about the transparency and communicability of each policy may indeed have been a large factor in the intensity of the early debates on this issue. Outside the ECB, transparency remains a concern of financial market actors, who continue to be somewhat dissatisfied with the amount of information volunteered by the ECB about its policies, in publications, press conferences, and appearances before the EP.

The biggest challenge, however, that the ECB seems to be facing in developing an ideational policy consensus is in the difficult question of what to orient monetary policy towards in a heterogeous economic zone. Critics have argued that aiming for some hypothetical average Euro zone outcome produces a “one size fits none” monetary policy, a policy for a country that literally does not exist. Others argue that the ECB might do better to consider focusing its monetary policy on improving economic conditions in its largest economies. This is a very serious challenge to the policy consensus question, as it brings in conceptions of political community at the same time as it creates potentially severe (at least in the short term) distributional effects across the Eurozone.

Again, ideas come into play, although in a different sphere than the more technical realm of monetary policy. Here the tension is between a conceptual map of political authority as vested in the ECB that stretches over the place called Euroland, and the concept of political authority still rooted in national polities, identities and communities. The latter view makes it more difficult to shape monetary policy as a balance between some concern for achieving aggregate welfare across the EU and for making sure that policy decisions are still politically palatable for the winners and losers, what I believe goes on in federal monetary systems. Policy can rarely be simply made as an exercise in the optimal achievement of aggregate welfare, but rather must be politically adjusted to gain support of key constituencies. It seems that the ECB is finding itself in the middle of such a debate at the moment, and it is made harder by the fact that the lines of political community may not follow the borders of the Eurozone.

Neoliberal Consensus Outside the ECB?

Independent central banks still must rely on the tacit if not vocal support of political actors, however, to successfully function and be legitimized. A final important question in our consideration of the status of the monetary consensus is to move beyond the circle of central bankers and to ask what political elites in the various national capitals believe today about the virtues and values of price

stability, and the sturdiness of that commitment. To what extent are perceived economic problems in the Eurozone bringing tight money, and central bank independence perhaps more broadly under question?

One group of policymakers closest to this question are the finance ministers of the member states. To what degree do they share similar views about the appropriate interest rates for the Eurozone? Traditionally, finance ministers in most national settings are generally more ready to advocate for rate cuts than the central bankers. Dramatic departures from the price stability emphasis are rare in the EU, however, as French Minister Dominique Strauss Kahn's case early on in the history of EMU demonstrated. But it would be helpful to consider whether there is any coherent and politically viable strategies on the part of other economic actors in the national and EU governance structures for challenging the authority of the ECB over general macroeconomic issues. Where might a viable, legitimate alternative vision of the appropriate economic governance strategy then come from?

One other interesting line of argument to pursue in regard to the broader consensus around the ECB's policy is the degree to which the somewhat unexpected distributional effects of EMU are playing out. How has it changed coalitional patterns of political support within the EU now that it appears that countries like Spain have fared better under the Eurozone regime than Germany? Given that the rules of EMU were written in part in reflection of the perceived economic success of Germany, how might ongoing perceived costs to the current regime create problems of political legitimacy?

What about the Fiscal Side?

A final critical policy area of economic governance not fully treated in my original work but perhaps the most important evolving policy area, is fiscal coordination in EMU. I did attempt some forward looking analysis in my book's last chapter, arguing that the basic monetary policy consensus was likely to hold, but that there were "limits to neoliberal reform", particularly in light of the elite driven nature of the EMU process coupled with unresolved issues on the fiscal side. My basic argument was that the neoliberalism of the EMS years had occurred without real public scrutiny or debate, but that the creation of a concrete currency and European central bank, as well as the strict fiscal rules for entry and continued membership in EMU would all combine to make monetary stability and central bank independence much more publicly contested.

In reading my text today, it seems I was right about tensions, but wrong about where they would erupt. I wrote that the convergence criteria would engender draconian budget cutting across the EU in the run up to EMU that would stimulate divisive interest group politics around the winners and losers of deficit reduction. In fact, surprising to me was the ability of many EU states to dramatically decrease their national budge deficits without sparking such

massive political protest. What I underestimated was the willingness of some governments and political and societal elites to shoulder increased tax rates to help balance the books, as well as the panoply of amazingly creative accounting and other devices used to meet or get close to the targets.[12] Second, I was wrong in imagining that the SGP would also mean much more visible contestation over EMU because it would mean the fining of member states who would inevitably find it impossible politically to stay within the structures of the three percent rules. Here again, I underestimated the political dynamics and creativeness of the EU in finding a way to work around the pact.

But I was right in predicting that tensions would come out in much more public and politicized ways, but certainly did not predict that it would occur around a Constitutional referenda. The debate over the Constitution was diffuse and not very strong on the specifics, but did express a growing sense of unease among many EU citizens over economic governance. I wrote in my book that the relatively consensual progress on monetary integration prior to EMU occurred without much public scrutiny but "All this could soon change, however, for EMU both exacerbates and makes visible what was previously obscured, that is, the social costs of neoliberal reforms and the democratic deficit inherent in European integration more generally." Such an assessment does not seem completely off the mark.

A final aspect of the fiscal debate that remains to be discussed is the overall structure of fiscal governance going forward in EMU. I would welcome a discussion in our seminar of who is advocating what, and under what conditions you might imagine one policy proposal gaining political momentum. The seeming disarray of the GSP, the limited advances of the Eurogroup, the lack of political support for fiscal federalism, the disagreements over whether monetary and fiscal policy should be coordinated (i.e., the 'policy mix') and whether soft coordination should play a role, create a situation that looks quite murky from this side of the Atlantic.

Conclusion: the Social Construction of Economic Imperatives

Much of the time, we tend to assume that people's interests and preferences are unproblematic, usually determined from an actor's position in the economy or within the prevailing political order. In this view, actors simply know what is in their interest and act on that knowledge; interests are given or exogenous in many accounts. What I see as a critical message of my book is that interpretations of the external world, be it market structures or power politics, are not unproblematic. Actors must rely on conceptual frameworks to make

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[12] My empirical study of this process is McNamara, "Globalization, Institutions, and Convergence: Fiscal Adjustment in Europe," in Miles Kahler and David A. Lake, eds., *Governance in a Global Economy* (Princeton University Press, 2003).

sense of the world around them, and their place within it. These conceptual frameworks, or ideas, about the way the world works and what is the right course of action (in moral and/or causal terms), are generated through social interaction and are thus contingent on the cultural context that actors exist within. As EMU matures, the ideational consensus and political foundations that it was originally built on will be challenged by the new issues and the increasing public salience of the ECB's political authority. Understanding the interaction between material conditions and the beliefs and social interactions of policy elites, as well as their publics, will continue to be important. It is undeniable that it will take political imagination, leadership and will to create the conditions under which EMU, and the EU, can progress.