

**Editors:** Published twice a year by the European Union Liaison Committee of Historians (Groupe de liaison des professeurs d'histoire contemporaine auprès de la Commission européenne), this publication is part of an independent international network of scholars and researchers. All articles submitted are double blind peer reviewed. The Journal is financed by the Liaison Committee.

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Website: [www.zgei.nomos.de](http://www.zgei.nomos.de) – <http://eu-historians.org>

**Annual subscription:** 88,- € incl. Online, Institution price incl. Online 273,- € | **Single issues:** 47,- €, Prices do not include postage and packing.

**Payments** can be made:

– By cheques payable to Nomos Verlag

– By bank transfers to Nomos Verlagsgesellschaft, Postbank Karlsruhe: bank code 660 100 75, account no. 73636-751 or Sparkasse Baden-Baden Gaggenau: bank code 662 500 30, account no. – 5-002266.

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**Orders:** Subscriptions and orders should be sent to: Nomos Verlagsgesellschaft mbH, D-76520 Baden-Baden, Germany.

**Cancellation Period:** Termination within 3 months notice to the end of the year.

**Production and Publishing:** Nomos Verlagsgesellschaft mbH & Co. KG, Waldseestr. 3-5, D-76530 Baden-Baden, Telephone 0 72 21 / 21 04-0, Telefax 0 72 21 / 21 04-27, E-Mail: [nomos@nomos.de](mailto:nomos@nomos.de).

**Advertisement:** Sales friendly, Verlagsdienstleistungen, Pfaffenweg 15, 53227 Bonn, Telephone 0228 / 9 78 98-0, Fax 0228 / 9 78 98-20, E-Mail: [roos@sales-friendly.de](mailto:roos@sales-friendly.de).

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ISSN 0947-9511

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Journal of European Integration History

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**Citation**

The Journal of European Integration History may be cited as follows:  
JEIH, (Year)/(Number), (Page).

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## Achieving a Shared Consensus: the Delors Committee and the Relaunch of the EMU Process

Marco VIANELLI

The years 1988 and 1989 marked the historic turning point that led the European Economic Community (EEC) to the realisation of its economic and monetary union in the following ten years. In this period, a new European institutional innovation consensus among the member states élites emerged. Following the entry into force of the Single European Act (SEA) in 1987, a new window of opportunity for a big and bold relaunch of the process of European integration through institutional innovation opened. Various actors at different levels of power were able to seize such opportunity through the development of an international debate that brought to the creation of the Delors Committee. Such actions came both from several national levels but also at the European one. The Italian and French economic milieux (embodied by their two Finance Ministers Édouard Balladur and Giuliano Amato) were fed up with the status-quo of the monetary system in place, which was perceived as being dominated by the Bundesbank's monetary policy and German economic interests. They believed that the asymmetry of intervention within the European Monetary System (EMS) disadvantaged the franc and the lira.<sup>1</sup> Moreover, the realisation of full freedom of capital movement, approved in the SEA and planned for 1992, would require a new joint approach to the European monetary policy-making.<sup>2</sup> Hence, to them, the realisation of a proper European economic and monetary union (EMU) could be the instrument to redress the monetary policy balance of power. In the same period, Jacques Delors started to believe that a concrete path towards the EMU was conceivable, through the exploitation of the rather vague

1. The EMS was designed to be symmetric in the obligation of intervention in the foreign exchange market, as both central banks should intervene any one bilateral exchange rate reached the limits imposed by the parity grid. However, during the 1980s, the Bundesbank never intervened against the other EMS currencies unless the Deutsche Mark had floated within its margin. This was in contrast with the mode of operation of the other EMS member states central banks, which intervened even before their currencies had reached the limits imposed by the parity grid. For an analysis of the asymmetry in foreign exchange market intervention within the EMS during the 1980s, see D. GROS, N. THYGESEN, *European Monetary Integration*, Pearson Education limited, Harlow, 1992, pp.169-170.
2. As theoretically pointed out by the Mundell-Fleming model, in an area of free trade it is impossible for a given State to benefit from the free circulation of factors of production (labour and capital), the free circulation of final products (goods and services), fixed exchange rates and an autonomous national monetary policy at the same time (A. MUNDELL, *Capital mobility and stabilisation policy under fixed and flexible exchange rates*, in: *Canadian Journal of Economics and Political Science*, 29(1963), pp.475-485). Consequently, many economists and policy makers (among others, Jacques Delors and Tommaso Padoa-Schioppa) thought that the decision to achieve the free circulation of capital within the EEC should lead to the realisation of an EEC single monetary policy.

traces for a European economic and monetary union present in the SEA.<sup>3</sup> Still, in early 1988, the positions of the member states concerning the institutional future of the European monetary system, the characteristics that the EMU should have and the path that should lead to its realisation were quite different. How could the heads of state present at the Madrid European Council of 26-27 June 1989 unanimously accept the launch of the process towards the European EMU and the convening of an intergovernmental conference for the realisation of a new treaty?

This paper tries to answer this question by analysing the path that brought to the creation of the Delors Committee, and how it was able to unanimously agree on a shared framework to achieve the EMU. The article differs from the vast existing bibliography on the EMU realisation process in some innovative aspects.<sup>4</sup> Firstly, it focuses on the early stage of EMU theorisation rather than on the historical path of EMU concrete implementation. The Governors of the central banks of the EC member states played a key role in this phase.<sup>5</sup> Making up the majority of the Delors Committee, they shaped the debate on which the Delors Report was set up, by carrying out technical studies and proposals on the EMU design and what was the best way to realize it. Among the Governors, a prominent role was played by Jacques de Larosière, Governor of the Banque de France, and Karl-Otto Pöhl, President of the Deutsche Bundesbank, whose action was crucial in ensuring the realisation of a report that could be approved by all Committee members. Moreover, this article is mainly based on previously unseen documents from the Tommaso Padoa-Schioppa Archives held at the Historical Archives of the European Union. These sources are of particular importance. Recognised as one of the fathers of the euro, the Italian economist played a fundamental role in shaping the

- 
3. There was a small reference to EMU in the title of a new chapter of the SEA dedicated to monetary and economic cooperation, named *Cooperation on economic and monetary policy (Economic and Monetary Union)*. The text also mentioned the “monetary capacity of the Community”. Moreover, in the preamble of the treaty, it was reported that the Heads of State or Government, at the Paris Conference of 19-21 October 1972, had approved the objective of the progressive realisation of economic and monetary union.
  4. The history of the realisation of EMU has been addressed by several scholars. Among others: K. DYSON, K. FEATHERSTONE, *The road to Maastricht: Negotiating economic and monetary union*, Oxford UP, Oxford, 1999; K.R. MCNAMARA, *The Currency of Ideas. Monetary Policy in the European Union*, Cornell University Press, Ithaca, 1999; A. VERDUN, *Why EMU happened? A survey of theoretical explanations*, in: P. CROWLEY, *Before and Beyond EMU. Historical lessons and future prospects*, Routledge, London, 2002, pp.71-98; H. JAMES, *Making the European Monetary Union*, The Belknap Press of Harvard, University Press, Cambridge, 2012; L. WARLOUZET, *Europe contre Europe. Entre liberté, solidarité et puissance*, Cnrs éditions, Paris, 2022, pp. 288-299.
  5. They were: Demetrios Chalikias (Bank of Greece), Carlo Azeglio Ciampi (Bank of Italy), Maurice Doyle (Central Bank of Ireland), Wim Duisenberg (De Nederlandsche Bank), Jean Godeaux (National Bank of Belgium), Erik Hoffmeyer (Danmarks Nationalbank), Pierre Jaans (Central Bank of Luxembourg), Jacques de Larosière (Banque de France), Robin Leigh-Pemberton (Bank of England), Karl-Otto Pöhl (Deutsche Bundesbank), Mariano Rubio (Bank of Spain), José Tavares Moreira (Bank of Portugal).

theoretical boundaries that marked the EMU realisation both at the Italian and the EC level and was one of the two rapporteurs of the Delors Committee.<sup>6</sup>

### The Origins of the Delors Committee

The beginning of an explicit international political debate on the need for innovation in the European monetary policy management came in early 1988. Hopes held out by EEC weak currency countries (Italy, France, and Belgium) that the September 1987 Basel-Nyborg Agreement would finally resolve the asymmetry of the European Exchange Rate Mechanism (ERM) adjustment costs were soon dashed by the Wall Street's Black Monday of 19 October 1987 and its consequences on the EMS stability.<sup>7</sup>

Although the Louvre Accord had tried to stabilize the international currency markets, the ongoing tensions between the Deutsche Mark and the US dollar that had characterised 1986 continued into 1987.<sup>8</sup> The decision by the Federal Reserve to raise the discount rate from 5.5% to 6% on 6 September 1987 prompted the Bundesbank, a few weeks later, to tighten its monetary policy by raising the repurchase ('repo') rate by 10 basis points, effective in early October. The Bundesbank Council had been increasingly uneasy about the fact that the annual Deutsche Mark

6. From 1984 to 1997, Padoa-Schioppa was the influential Deputy Director of the Bank of Italy and was a key policy maker in defining the Italian stance during the EMU realisation process. At the European level, from 1979 to 1983, Padoa-Schioppa was the DG2 Director-General in the Jenkins and Thorn Commissions. In 1987, he chaired his eponymous Committee appointed by the European Commission to analyse the implications of the institution of the single market. For an analysis of Padoa-Schioppa's role in the EMU realisation, see F. MASINI, *Tommaso Padoa-Schioppa, EMU as the Anchor Stone for Building a Federal Europe*, in: K. DYSON, I. MAES (eds), *Architects of the Euro*, Oxford University Press, Oxford, 2016, pp.193-211.
7. The Basel-Nyborg Agreement marked the biggest reform to the EMS since its creation. It was the results of a compromise between the countries that wanted an automatic financing mechanism for intramarginal interventions in the Exchange Rate Mechanism (ERM) fluctuation bands and a fairer division of the weight of these interventions (France, Belgium, Italy) and the other countries that opposed these requests (Germany, the Netherlands, Denmark). The EC members decided to formalize the practice of intramarginal intervention by their central banks to counterbalance speculative pressures. In particular, the agreements provided for: 1) very-short-term financing facility (VSTF) initial settlement extension from 45 days to a maximum of 75 days; 2) the acceptance of repayment of part of the VSTF debts in ECU rather than in the currency of the lender; 3) the possibility, under certain conditions, to use the VSTF facility for intramarginal interventions. On the subject, see K. DYSON, *Elusive Union: The Process of Economic and Monetary Union in Europe*, Longman, London, 1994, pp.121-123; H. JAMES, op.cit., p.223.
8. The Louvre Accord was an agreement, signed on 22 February 1987 by the G6 Finance Ministers and central banks Governors, with the aim of stabilizing international money markets and halting the continued decline of the dollar. On that occasion, the Ministers and Governors set 5% target ranges for currency fluctuation. On the topic, see H. RANDALL HENNING, *Currencies and Politics in the United States, Germany and Japan*, Institute for international economics, Washington, 1994, p.205; H. JAMES, op.cit., p.221.

supply growth had overshoot the target range for the third year in a row, fearing inflationary risks if no action was taken. By mid-October the repurchase rate rose by 35 basis points. These developments triggered a harsh reaction from the American side. On 15 October 1987, during a White House press briefing, US Treasury Secretary James Baker suggested letting the dollar fall further to pressure Germany not to undertake new interest rate hikes. As a result, the Deutsche Mark appreciated, causing the other European central banks to intervene with around \$900 million worth of Deutsche Mark sales. On 19 October 1987, a stock market crash broke out, with Down Jones Industrial Average index plummeting 508 points (22.6%). In the following months, as the Federal Reserve lowered interest rates and increased liquidity to stem the fall in stock prices, the dollar continued to depreciate and reached its all-time low (until then) against the Deutsche Mark on 4 January 1988.<sup>9</sup> The Bundesbank bought considerable amounts of dollars in the foreign exchange markets; nevertheless, it was under great pressure to act on its interest rates. The appreciation of the Deutsche Mark made the French franc fell sharply against it. On 6 November 1987, the Banque de France had to draw 3.4 billion ECU through the VSTF to let its currency to remain within its ERM margins against the Deutsche Mark. At the same time, the French franc was allowed to depreciate within the band against the German currency. On 3 December 1987, Federal Chancellor Helmut Kohl telephoned Karl-Otto Pöhl and stressed the political importance to ease the interest rates. The following day, the Bundesbank Council cut the discount rate from 3 to 2.5%.<sup>10</sup>

The idea that only a profound institutional overhaul could rebalance the system strengthened in the political French milieu.<sup>11</sup> The first turning point in the EMU debate came from the French Minister of Economy, Finance and Privatisation Édouard Balladur. In his opinion, the Germans were the main responsables for the October financial crisis and the subsequent EMS instability. He circulated a memorandum called “Memorandum sur la Construction Monétaire Européenne” at the January 1988 ECOFIN meeting. The document not only criticised the asymmetry in interventions intrinsic to the EMS but also proposed the future establishment of a European common currency and a European Central Bank. Nevertheless, the text failed to define how to achieve these institutional innovations.<sup>12</sup>

9. 1 US Dollar = 1.563 DM.

10. On the US dollar-Deutsche Mark tensions, the 19 October 1987 stock market crash, and its effects on the EMS stability, see C. RANDALL HENNING, *op.cit.*, pp.205-208; H. JAMES, *op.cit.*, pp.225-226; D. GROS, N. THYGESEN, *op.cit.*, pp.91-92; E. APEL, *European Monetary Integration 1958-2002*, Routledge, London, 1998, pp.63-64.
11. C. PARSON, *A Certain Idea of Europe*, Cornell University Press, Ithaca, 2003, p.211. On the French political situation and the European integration process during the Mitterrand years, see: G. BOSSUAT, *Faire l'Europe sans défaire la France. 60 ans de politique d'unité européenne des gouvernements et des présidents de la République française (1943-2003)*, Peter Lang, Brussels, 2005; F. BOZO, *Mitterrand, la fin de la Guerre froide et l'unification allemande*, Odile Jacob, Paris, 2005.
12. É. BALLADUR, *Mémorandum sur la Construction Monétaire Européenne*, in: ISTITUTO SAN PAOLO DI TORINO, *ECU newsletter*, 3(1988), pp.17-20.

The publication of the Balladur memorandum pushed the Italians to develop their own attack on the current EMS.<sup>13</sup> On 22 February 1988, Treasury Minister Giuliano Amato sent his ECOFIN colleagues his own memorandum. The document criticised the intrinsic asymmetry in the EMS, advocated for a fairer distribution of the burden, and made concrete proposals on the future institutional framework of the European Economic Community. It suggested remodelling the European Monetary Cooperation Fund (EMCF), which had been created as a last-resort supplier in the wake of the monetary tensions of the mid-1970s, by giving it the power to raise funds on the markets, which would be distributed to balance capital outflows in member states.<sup>14</sup>

Reading the two memorandums, Hans-Dietrich Genscher, Federal Republic of Germany (FRG) Foreign Affairs Minister, understood that a window of opportunity to change the debate around the European monetary system had opened. Unlike his colleague and Minister of Finance Gerhard Stoltenberg, Genscher was convinced that the asymmetry of the burden of monetary adjustments in the ERM could cause the failure of the EMS, a potential catastrophe for the German industrial sector.<sup>15</sup> Therefore, during the first weeks of February, Genscher worked on a text that responded constructively to the criticisms made by the French and Italians. The Genscher memorandum, presented during a public conference on 26 February 1988, proposed the creation of a European Monetary Area and an independent European Central Bank committed to price stability, on the Bundesbank model. Moreover, the principles of macroeconomic and monetary stability would be the basis of a European Magna Carta for the implementation of a stability-oriented European policy. Most importantly, the document suggested setting up a “committee of wise men” in charge of defining, in one year, the technical characteristics of the new European Central Bank and of proposing an institutional transition path to set it up.<sup>16</sup>

Kohl’s initial reaction to the publication of the Genscher memorandum was rather cold. During an informal meeting with François Mitterrand in Durbach on 14 March 1988, Kohl defended the notion that the realisation of a European central

13. On Italy, the EMS and the EMU process, see M. NERI GUALDESI, *L’Italia e la CE. La partecipazione italiana alla politica di integrazione europea 1980-1991*, ETS, Pisa, 1992; A. VARSORI, *L’Italia e la fine della guerra fredda*, Il Mulino, Bologna, 2013.
14. G. AMATO, *Un motore per lo SME*, in: *Il Sole 24 ore*, 25.01.1988. The article was a full reproduction of the memorandum presented at the 23 February ECOFIN.
15. W. LOTH, *Between France and the Bundesbank: Hans-Dietrich Genscher, Helmut Kohl and the Breakthrough of the Monetary Union*, in: M. GEHLER, W. LOTH (eds), *Reshaping Europe*, Nomos, Berlin, 2020, pp.331–346. On the complex relationship between Western Germany political actors and the EMU process during Kohl chancellorship, see K. KALTENTHALER, *Germany and the Politics of Europe’s Money*, Duke University Press, Durham, 1998; W. LOTH, *Helmut Kohl and the Monetary Union*, in: M. GILBERT, E. OBERLOSKAMP, T. RAITHEL (eds), *Germany and the European Integration*, vol.4, De Gruyter Oldenburg, Berlin, 2019, pp.157-186.
16. H.-D. GENSCHER, *Memorandum für die Schaffung eines europäischen Währungsraumes und einer Europäischen Zentralbank*, reprinted in: DEUTSCHE BUNDESBANK, *Auszüge aus Presseartikeln*, no.15, March 1988, p.6.

bank should be the conclusion of the European unification process and that common economic and fiscal policies should be previously implemented. However, Delors saw the publication of the Genscher memorandum as the opening of a favourable conjuncture for the EMU process. The Commission President therefore decided to use the German EC rotating presidency to shape a closer relationship with Kohl regarding EMU. They met several times from late March onwards to discuss the Genscher memorandum. Delors attempted to convince the German that the creation of a group of wise men, as proposed by Genscher, was consistent with the method the EC had previously used as a basis for its progress, and that the work of the group could be rejected by the European Council. Regarding the composition of the committee, Delors, taking into consideration the previous negative experiences of both the Werner Committee and the Schmidt-D'Estaing Action, supported the importance of the presence of central bank governors.<sup>17</sup>

Besides Delors' action, a number of considerations led Kohl to change his mind in the following weeks. At the end of March, Lothar Späth, one of the most EMU-friendly members of the Christian Democratic Union of Germany (CDU) and a potential threat to Kohl's leadership, maintained an absolute majority in the Baden-Württemberg state elections. At the same time, Genscher emerged as the most popular politician in the FRG, according to several opinion polls. An initiative on EMU seemed likely to win over voters and, at the same time, could strengthen the alliance with the Free Democratic Party (FDP). Moreover, Kohl started to understand that, if he wanted his legacy to be considered and revered in the same way as Konrad Adenauer's, his leadership had to take a European dimension. He concluded that developing a path towards EMU might have become his legacy on the European integration process, much as the adoption of the internal market had been Adenauer's.<sup>18</sup> Mitterrand's re-election was also an important element in favour of EMU action in Kohl's reasoning, as the German was convinced that a Jacques Chirac presidential victory would make it more challenging to reach an agreement with France on the matter.

After Mitterrand's victory, Federal Chancellery Directorate-General 2 members Peter Hartmann and Joachim Betterlich, together with Delors cabinet' Pascal Lamy and Gunther Burghardt, started to work to an EMU initiative for the following Hanover European Council.<sup>19</sup>

Mitterrand, who had chosen to make his support for European construction a theme of his presidential campaign and, once elected, had created a task force to prepare the following year French EC presidency with the aim of opening an inter-governmental conference on EMU, was informed by Delors that there were possibilities to reach a deal with Kohl for the creation of a committee of wise men on

17. K. DYSON, K. FEATHERSTONE, *op.cit.*, pp.335 and 712.

18. On the role model played by Adenauer on Kohl's chancellorship, see the chapter *Emu, The Kohl Chancellorship and German Political Tradition: The Legacy of Adenauer and Erhard*, in: K. DYSON, K. FEATHERSTONE, *op.cit.*, pp.256-285.

19. K. DYSON, K. FEATHERSTONE, *op.cit.*, p.337.

EMU.<sup>20</sup> On 2 June 1988, Kohl and Mitterrand met at the Hotel Royal in Evian and made an agreement based on a mutual concession. France would accept the directive on the liberalisation of capital movements to be presented at the ECOFIN Council of the following 6 June, whose approval was considered by the Kohl Chancellery, and in particular by Stoltenberg, an indispensable precondition for any negotiation towards the EMU realisation.<sup>21</sup> In return, Kohl agreed to the appointment of a study committee on EMU.<sup>22</sup>

The European Council of Hanover, on 27-28 June 1988, represented a great political victory for Kohl, Mitterrand and Delors, who obtained the creation of a committee with the characteristics desired by the three. The appointed members of the committee were member states central bank Governors Demetrios Chalikias (Bank of Greece), Carlo Azeglio Ciampi (Bank of Italy), Maurice Doyle (Central Bank of Ireland), Wim Duisenberg (De Nederlandsche Bank), Jean Godeaux (National Bank of Belgium), Erik Hoffmeyer (Danmarks Nationalbank), Pierre Jaans (Central Bank of Luxembourg), Jacques de Larosière (Banque de France), Robin Leigh-Pemberton (Bank of England), Karl-Otto Pöhl (Deutsche Bundesbank), Mariano Rubio (Bank of Spain), José Tavares Moreira (Bank of Portugal), three experts in monetary affairs (Bank for International Settlements Managing Director Alexandre Lamfalussy, Danish Professor Niels Thygesen and Spanish economist, banker and former Finance Minister Miguel Boyer) and the European Commission Vice-President Frans Andriessen. The Committee would be chaired by Jacques Delors himself.

### Developing Strategies

Although the European Council of Hanover had appointed the members of the Delors Committee, its rapporteurs had yet to be formally nominated. In Jacques Delors' initial thinking, the two rapporteurs had to be closely aligned with his positions and those of the Commission. He had therefore considered recruiting Tommaso Padoa-Schioppa and Jean-Paul Mingasson and had advised the head of states of his intentions during the meeting.<sup>23</sup> Jean-Paul Mingasson had been Director for Monetary Affairs in the EC Commission DG2 since 1982. Tommaso Padoa-Schioppa had been DG2 Director-General in the Jenkins and Thorn Commissions from 1979 to 1983 and had been nominated by Delors to chair the eponymous Committee, appointed by the European Commission in 1987, to analyse the impli-

20. Ibid., p.178.

21. On the French domestic debate about the capital movements liberalisation, see P. FAVIER, M. MARTIN-ROLAND, *La décennie Mitterrand (1988-1991)*, Éditions du Seuil, Paris, 1996, pp.73-108. See also W. LOTH, *Helmut Kohl and the Monetary...*, op.cit., p.162.

22. On the Evian meeting see, K. DYSON, K. FEATHERSTONE, op.cit., pp.178-179; C. PARSON, op.cit., p.212.

23. H. JAMES, op.cit., p.235.

cations of the institution of the single market. The two were among Delors most trusted collaborators; during his presidency, the French President of the EC Commission had made a habit of organising regular working lunches with them to talk about ERM and EMU related issues.<sup>24</sup> At the end of the Hanover EC Council, Italian Prime Minister Ciriaco De Mita incautiously referred to the press that Padoa-Schioppa would be the only rapporteur of the Committee. This immediately met with strong resistance from Bundesbank President Karl-Otto Pöhl. During a meeting of the Bundesbank Council on 30 June 1988, the German central banker complained that the choice of Delors as chairman and the proposed composition of the secretariat guaranteed a domination of the European Commission on the work of the Committee and that “latin” monetary views would prevail over German commitment to monetary stability. During a call with Bank of England Governor Robin Leigh-Pemberton on 4 July 1988, Pöhl stated that the appointment of Padoa-Schioppa would bring the report to have a strong bias in the wrong direction, and proposed the nomination of two other rapporteurs, a British and a German, to balance the Italian. On 12 July 1988, an informal meeting between the members of the Delors Committee took place in Basel to have a first exchange of views and to decide on the form and composition of the secretariat. Delors renounced to the Mingasson nomination, understanding that he needed to make an accomodating gesture towards Pöhl. It was appointed instead Gunter Baer, a Bank for International Settlements (BIS) official who had been German Finance Ministry and IMF employee and who had been previously proposed to Delors by Pöhl.<sup>25</sup>

Shortly after the appointment of the rapporteurs, the work of the Committee began. It soon became clear to all involved that its work, and its outcome, could change the inertia in favour of the realisation of EMU. Delors, who had clearly in mind the fragility of his Committee’s balance, immediately understood that it was necessary to develop a theoretical common ground among its members as soon as possible. On 18 July 1988, he organised a first informal meeting with the two rapporteurs, Mingasson, and Joly Dixon, a senior member of his cabinet. Delors asked Baer and Padoa-Schioppa to prepare an assessment of the Werner Report, and a second document identifying the key practical and theoretical challenges the Committee could face.<sup>26</sup> The two texts, “The Werner Report Revisited” and “Economic and Monetary Union: The Main Issues” (colloquially known as the “Main Issues paper”) were released on 1 September and were used as the theoretical basis to begin the work of the Committee during its first meeting.

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24. K. DYSON, K. FEATHERSTONE, *op.cit.*, p.705.

25. On the events that led to the appointment of Padoa-Schioppa and Baer as rapporteurs, see H. JAMES, *op.cit.*, pp.235-236; K. DYSON, K. FEATHERSTONE, *op.cit.*, pp.342-343, 705 and 713-715.

26. HAEU [Historical Archives of the European Union], TPS-322, Padoa-Schioppa personal notes, 18.06.1988.

“The Werner Report Revisited” included a detailed analysis of the Werner Report and an investigation on the reasons of the failure of its implementation.<sup>27</sup> These were traced back to the change of the international environment in the years following the report publication, marked by the collapse of the Bretton Woods system and the 1973 oil crisis, but also to intrinsic weaknesses of the report itself. In particular, the authors pointed out that, per the Werner Report, the process of convergence and progressive integration towards EMU would be based on voluntary agreements on general Community objectives, to be achieved through recommendations. Therefore, there was no provision to ensure that these would be properly realised by the member states.<sup>28</sup>

“Economic and Monetary Union: The Main Issues” was primarily an attempt to better articulate the issues on the EMU realisation and to identify the key challenges the Delors Committee would deal with. In the document, the authors noted that there was no agreed definition of what an economic union was. Moreover, there was no single theoretical model of monetary union, and the Committee would have to choose which one was most suitable for the EEC.<sup>29</sup> The degree of independence and accountability of the monetary authority from political institutions also needed to be discussed. Finally, particular attention should be put in the description of the implementation of the transitional phase towards full EMU realisation.<sup>30</sup>

Delors was not the only one to try to steer the work of the Committee. Pöhl, who had repeated on several occasions his opposition to the creation of the Committee and had thought not to attend it, soon realised that only by actively participating in the works of the Delors Committee could the Bundesbank influence its outcome. It became clear that a strategy was needed. The Bundesbank directorate decided that the best tactic to lead the Committee was to take the initiative as soon as possible, setting the basic principles on which the discussion and negotiation within the Committee could start. This could be done by defining the essential constituent elements of an economic and monetary union and stating the German proposals for its realisation. Throughout August the Bundesbank directorate produced two documents, “The further development of the European monetary system” and “Outline of the problems connected with a European economic union”, to be pre-

27. The Werner Report was the EC first attempt to create a step-by-step plan for the EMU realisation. The document was written by an ad hoc committee appointed at The Hague European Summit of 1969. The committee, chaired by Pierre Werner, Prime Minister of Luxembourg, and formed by the chairmen of the monetary committees, central bank Governors, and by a representative of the EC Commission, was charged to define what an economic and monetary union was and to cover all the theoretical issues of a gradual transition towards it.

28. HAEU, TPS-184, The Werner Report Revisited, 01.09.1988.

29. The authors identified four pursuable models: 1) a centralised monetary union, consisting of a supervisory authority and a single currency; 2) a decentralised monetary union, without a supervisory authority or a single currency but with a fixed exchange rate system and non-binding coordination between national authorities; 3) a market model-based monetary union, which would provide for the introduction of a parallel currency; 4) a federal monetary union, based on the American model.

30. HAEU, TPS-184, Economic and Monetary Union: The Main Issues, 01.09.1988.

sented during the first session of the Delors Committee. The two documents were particularly important. They were produced to make the German contents and positions known since the very beginning and, in doing so, steer the Committee debate. The two texts served to lay down the German red lines for the EMU realisation. In particular, the importance of the principle of independence of the future common central bank from any political power was stated and stressed multiple times. On the macroeconomic side, the documents explicitly proposed the introduction of common deficit and debt rules as convergence criteria towards the EMU realisation. Concerning the evolution of the EMS, the texts affirmed that the only option possible was the transition towards a single currency, refusing the transformation of the ECU into a proper parallel currency because of the increased difficulty of management of the EMS.<sup>31</sup>

### The first months of the Delors Committee

The Delors Committee gathered once a month from September 1988 to April 1989. Since its very beginning, Delors focused on creating a positive working environment, knowing that there was a real risk of infra-Committee fragmentation that could quickly lead to a complete failure. As there was the need to overcome the personal reluctance of some members to embrace a discussion on EMU, Delors tried to limit the content of the Committee task to assess how it was technically possible to achieve the European monetary union, rather than discussing its desirability or political feasibility.<sup>32</sup> To achieve this purpose, he deliberately decided to postpone to the fourth meeting, in mid-December, the production of the first draft of the report. The first three months of the Committee's activity were dedicated to the development of broad discussions and the publication of specific and analytical documents by the various members to encourage internal debate, so as to foster preliminary consensus on the definition of some of the fundamental elements for the transition towards EMU.

The first Committee meeting served to its members to reaffirm the negotiation positions of their countries regarding the achievement of EMU.<sup>33</sup> Some elements that would characterise the Delors Report emerged. There was immediate consen-

31. HAEU, TPS-195, The further development of the European monetary system, 13.09.1988; Outline of the problems connected with a European economic union, 13.09.1988.

32. On the strategy of Delors during the Delors Committee, see J. DELORS, *Mémoires*, Plon, Paris, 2004, pp.312-320; É. BUSSIÈRE et al., *La Commission européenne 1986-2000*, OPOCE, Luxembourg, 2014, pp.234 and 390; K. DYSON, K. FEATHERSTONE, op.cit., pp.717-720.

33. On the EMU economic rationale, see D. GROS, N. THYGESEN, op.cit., pp.261-387; on the general political situation of the member states before the Delors Committee, see M. GILBERT, *European Integration. A Concise history*, Rowman & Littlefield Publishers, Plymouth, 2012, pp.117-150; on the EC Commission and the EMU process: É. BUSSIÈRE, I. MAES, *La dynamique de l'Union économique et monétaire*, in É. BUSSIÈRE et al., *La Commission européenne...*, op.cit., pp.233-262.

sus among the members that the definition of monetary union developed in the Werner Report was still theoretically valid, whereas positions on what an economic union meant were diverse. It was therefore decided to devote the second meeting to finding a consensus on the definition of economic and monetary union. When the Committee members were on the point of leaving, Pöhl announced that two German documents, the already mentioned “Outline of the Problems connected with a European economic union” and “The further development of the European monetary union”, would be circulated to the member states on the following day, representing his position concerning the Delors Committee work.<sup>34</sup> The publication of Pöhl’s documents was seen by Delors as an attempt by the German to steer the work of the Committee.<sup>35</sup> In reply, the French President of the Commission produced a document, “Union Économique et Monétaire et Relance de la Construction Européenne”, in which he reiterated that the realisation of the Single Market by 1992 was intended to enable the European Economic Community to develop a genuine regional economic and monetary policy, enhanced by stabilisation instruments such as the newly reformed EMS and the new cohesion policy as included in the Delors Package.<sup>36</sup>

As announced during the first session of the Committee, the second meeting was devoted to discussing the characteristics and definition of an economic union. The first debated topic was the irrevocable fixing of parities, and what kind of economic policy problems this decision could raise. There was general agreement among the members that mechanisms should be introduced to eliminate economic imbalances among the EEC member countries. There were, however, divergences on the specificities of such measures. A fracture of the Committee into two blocs, one more favourable to the establishment of a system of explicitly decoded common rules to limit the freedom of member states’ economic policies, and another one more inclined to a system of discretionary management, soon emerged. The necessity to introduce a comprehensive fiscal transfer system was heavily debated. At the end of the meeting, Delors asked de Larosière to produce a text on the first steps to be completed towards a European monetary union.<sup>37</sup> The French central banker sent to the other members his “Premières étapes vers la création d’une Banque de Réserve Européenne” on 28 October 1988. The document proposed creating a European Reserve Fund (ERF) by early 1990, as the first nucleus towards the realisation of a European Central Bank (called European Reserve Bank in the text) by 2000.<sup>38</sup>

The third meeting of the Committee, held in Basel on 8 November 1988, did not produce any attempt to reconcile the various positions on how to define, struc-

34. HAEU, TPS-195, Tapes of the First Meeting of the Delors Committee, 13.09.1988.

35. HAEU, TPS-322, Padoa-Schioppa, personal notes, 19.09.1988.

36. HAEU, TPS-184, Union Économique et Monétaire et Relance de la Construction Européenne, 27.09.1988.

37. HAEU, TPS-195, Tapes of the Second Meeting of the Delors Committee, 10.09.1988.

38. HAEU, TPS-195, Premières étapes vers la création d’une Banque de Réserve Européenne, 28.10.1988.

ture, and achieve EMU. The circulation of “Premières étapes vers la création d’une Banque de Réserve Européenne” resulted in an unfruitful debate on which elements should be included in the first step of the process towards EMU. Some members of the Committee (Ciampi, De Larosière, Rubio, Lamfalussy) favoured the theorisation of a first stage that realised substantial institutional changes. Others (Pöhl, Duisenberg, Hoffmeyer, Chalikias) expressed their preference for a first step without institutional and legal changes. In the latter case, this stage would consist of strengthening the existing provisions, through the intensification of cooperation and non-binding coordination procedures at the Community level. Pöhl seized the opportunity to elaborate his position on the matter. To him, the first stage should be limited to an amendment to the Council of the European Community decision of 1964, which created the Committee of Governors of the Central Banks (CoG).<sup>39</sup> Pöhl proposed to allow the CoG to make formal, although not binding, recommendations on member states exchange rates, monetary and fiscal policies. He also suggested changing the system of monetary policy coordination operating at that time, established by a 1974 Council of the European Community decision.<sup>40</sup> Pöhl’s propositions, which were included in the final report, would later form the backbone of the first phase of institutional change towards the EMU realisation in the 1990-1992 period.

#### **The fourth and fifth meeting: a turning point**

While the first three meetings of the Delors Committee enabled a dialogue, its fourth was a real turning point in the Committee’s work, as the first outline of what would subsequently be the Delors Report was presented. By the end of October, Padoa-Schioppa and Baer started working on the text. The final version of the so-called Skeleton Report was sent to the other Committee members on 2 December 1988. The document advocated the realisation of a single currency area. Its establishment implied the setting up of a new institution, the European System of Central Banks (ESCB), which would be composed of the European Federal Monetary Institute (EFMI) and the national central banks. In the final stage of the integration process, this new institution would be responsible for formulating the EEC monetary policy and executing exchange rate policy vis-à-vis third countries. The national central banks would have to implement these policies under the guidelines established by the EFMI itself. The prime objective of the Community’s monetary policy should be monetary stability. Moreover, independence from national governments and Community authorities was to be granted. The document also stressed the need to introduce common tax rules to impose limits on the member states

39. On the creation of the Committee of Governors of the Central Banks, see L. WARLOUZET, *Le choix de la CEE par la France. Les débats économiques de Pierre Mendès-France à Charles de Gaulle (1955-1969)*, CHEFF, Paris, 2011, pp.339-399.

40. HAEU, TPS-195, Tapes of the Third Meeting of the Delors Committee, 8.11.1988.

deficit, even though the parameters on which such rules should be based were not clarified. These rules would contribute to the establishment of a European fiscal framework: a comprehensive set of fiscal provisions on the national and Community budgets to cover issues such as authorised deficits, their financing, and harmonisation of taxes. On Delors suggestion, the rapporteurs proposed the establishment of the Centre for Economic Policy Decisions (CEPD), which would have the competence to enforce this new fiscal framework.<sup>41</sup> The CEPD was not imagined to be a new institution but rather the cumulative name of the actions through which the EEC could shape the economic policies of member countries.

The Skeleton Report not only outlined the structure of EMU and its new institutions, but also presented a three-step path to its realisation. The first one would start in mid-1990, with the entry into force of the EC directive on short-term capital movements and would not produce any immediate significant institutional change. Its most significant innovation was the convocation of an intergovernmental conference for the realisation of a new EC treaty, containing all the legal provisions necessary to achieve EMU. Formal adoption of the new treaty would mark the beginning of the EMU process second stage. This phase would introduce non-binding rules on member states budget deficits, the adoption of medium-term guidelines for financial objectives, and the strengthening of Community investment programs for infrastructure and scientific research. Above all, the second stage foresaw the institution of the CEPD and the ESCB. The third stage would see the fulfilment of the fundamental criteria for achieving EMU. In this phase, common constraints on national budgets would come into force to prevent imbalances that could threaten monetary stability. Moreover, exchange rates would be fixed, and the ESCB would begin to manage the Community's monetary policy. Finally, a single currency would replace the member states national currencies. Padoa-Schioppa and Baer proposed an institutionalist variant of this three-stage plan, which varied from the first for the creation during the first stage of a fund with characteristics very similar to those proposed by de Larosière. Such a fund would replace the EMCF, with the task of intervening in third currencies through daily instructions received by member states central banks, countering possible destabilising short-term capital movements. It would be absorbed by the ESCB in the second stage.<sup>42</sup>

With the fourth meeting, the Delors Committee work got to the heart of the matter, as a first draft of the structured plan for realising the economic and monetary union was discussed by the members. Pöhl and Doyle reiterated that realising the economic union should be a prerequisite for a monetary union. The CEPD was heavily criticised by many members, who considered it too vague and badly structured.<sup>43</sup> Although defended by Delors on that occasion, the CEPD was then scrapped from the report during the following meeting.<sup>44</sup>

41. HAEU, TPS-322, Padoa-Schioppa personal notes, 25.10.1988.

42. HAEU, TPS-185, The Skeleton Report, 02.12.1988.

43. HAEU, TPS-195 Tapes of the Fourth Meeting of the Delors Committee, 13.12.1988.

44. HAEU, TPS-196, Tapes of the Fifth Meeting of the Delors Committee, 10.01.1989.

The fifth reunion of the Delors Committee represented a turning point as its members reached a compromise on how to link an early negotiation of a new European treaty, an element strongly desired by some members of the Committee, to a light first stage of the EMU realisation process. The compromise was made possible by the shift of the French position regarding the essential characteristics of the future European Central Bank and its autonomy from the executive power. Before the Delors Committee, the French stand on the matter was that governments should have a decisive role in the management of the Community's monetary policy.<sup>45</sup> This position was also reaffirmed in "Premières étapes vers la création d'une Banque de Reserve Européenne". The document clearly stated that the role of the Council of Ministers should be decisive in defining the exchange rate parities and the broad economic policy guidelines of the Community. In the previous months, various Rocard government representatives had stated such principle, criticising the idea of establishing a Bundesbank lookalike European Central Bank.<sup>46</sup> After the Committee's fourth reunion, seeing which kind of consensus was emerging, de Larosière understood that a policy shift was necessary. Given the importance of the decision, he needed to have Mitterrand's political cover against the likely criticism of many government officials. On 1 December 1988, when the two met, de Larosière explained that he needed to support the idea of an independent European Central Bank, as the work of the Delors Committee was beginning to get to the heart of the matter. He was convinced that, to reach an overall compromise on the implementation of EMU, Paris had to align itself with Bonn on the matters the Bundesbank cared about. France had to accept that European monetary policy should be based on the principle of price stability, and that the best way to achieve this objective was to guarantee the independence of the ESCB. Driven by the comprehension that if a deal with the Germans and the Dutch was wanted there was no concrete alternative to agree to central bank independence, Mitterrand guaranteed his support.<sup>47</sup> De Larosière was able to signal to Pöhl his agreements with Mitterrand before the fourth meeting of the Delors Committee took place. De Larosière's policy shift showed Pöhl and the other members that the French were prepared to make major sacrifices and substantial changes to their institutional balances to reach an agreement. It was an unexpected turning point for the Bundesbank President. The German understood for the first time that an agreement was possible.

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45. This aversion towards the autonomy of the central banks in setting the monetary policy had its origins in the historical position of the French socialists on the relationship between central bank, monetary policy management, and government powers; on the relation between the Banque de France and the Mitterrand presidency, see J. DE LAROSIÈRE, *De la conversion des Banques Centrales Européennes à l'Euro*, in: O. FEIERTAG, M. MARGAIRAZ (eds), *Les banques centrales à l'échelle du monde*, Les Presses de Sciences Po, Paris, 2012; on the evolving attitude of the Mitterrand presidency towards the monetary policy, see S. BERSTEIN et al. (eds), *François Mitterrand. Les années du changement, 1981-1984*, Perrin, Paris, 2001.

46. On the tactical position expressed by the Rocard government members to the Delors Committee, see K. DYSON, K. FEATHERSTONE, *op.cit.*, pp.181-184.

47. On the de Larosière-Mitterrand agreement, see J. DE LAROSIÈRE, *op.cit.*, p.258.

The effects of the French turning point were fully revealed during the Committee's fifth meeting, which took place in Basel on 10 January 1989. The debate focused on the structure of the first stage towards EMU. The meeting marked the burial of the second scenario proposed by the Skeleton Report, which suggested a European Reserve Fund be instituted during the first stage. During the meeting, most members reiterated objections to it. This outcome was expected by de Larosière, who did not protest. At the end of the session, after a long debate between the members, a compromise on the elements of the first stage towards EMU was found: no institutional change would be realised during this phase (on the model of Pöhl propositions) but a formal and explicit request to begin the process of negotiating a new treaty simultaneously with the launch of the first phase in June 1990 would be inserted in the report. Such a new treaty should be approved and ratified by the end of the first stage.<sup>48</sup> Following the fifth meeting, in which Pöhl had expressed willingness to compromise, Delors understood that a consensus on the realisation of institutional change was reachable. The price for this consensus would be the convergence of the report on the Germans positions. This new understanding brought a change in the attitude of the Frenchman, which was also evident through the public statements Delors gave in January. The most important one was his intervention in the European Parliament on 18 January 1989, in which the President of the European Communities defended the principle of independence of the future European Monetary System from the political power.<sup>49</sup> In the same days, important signals came from the German side. Although the Kohl cabinet had stated only in early January that premature institutional agreements on the realisation of the European Monetary Union and a European Central Bank should be avoided, the German Chancellor, during the "Europa Forum" in Stuttgart later in the same month, recommended the establishment of a politically autonomous European Central Bank dedicated to the pursuit of monetary stability.<sup>50</sup>

### **The sixth and seventh meeting: agreeing to disagree**

Despite the progress made during the first five meetings, there were still several matters on which the Committee members deeply disagreed. During the sixth and the seventh meeting, it seemed to many that the Delors Committee could turn into a total failure.

During the sixth meeting, two major subjects on which a compromise was yet to be found were assessed: the future of the ECU and the characteristics of the second stage. The ECU was the unit of account around which, since the introduction

48. HAEU, TPS-196, Tapes of the fifth meeting of the Delors Committee, 10.01.1989.

49. HAEU, TPS-189, Delors speech to the European Parliament, 18.01.1989.

50. *Keine Eile auf dem Weg zur europäischen Notenbank*, in: *Frankfurter Allgemeine*, 25.01.1989.

of the EMS, the currencies in the ERM floated.<sup>51</sup> However, several members within the Delors Committee saw it as the potential future European single currency and, during the previous meetings, had tried to develop a debate on the topic. In the Skeleton Report, Padoa-Schioppa and Baer proposed to develop a mechanism through which the ECU could evolve into a common currency. In their plan, the ERM existing agreements would be amended to introduce the ECU as an additional currency. The ECU would no longer represent a weighted average of Community currencies, it would have a fixed but adjustable exchange rate vis-à-vis national currencies, and the ESCB would assume responsibility for its management. This transformation would imply an autonomous process of ECU creation by the ESCB, which would have to go hand in hand with the creation of the currencies by the national central banks. In late December, Bank of Italy Governor Carlo Azeglio Ciampi circulated the document “The ECU in the monetary union process”, in which it was outlined a scheme to bring about the transition from an advanced stage of monetary coordination (in which a central monetary institution has been already created) to an early stage of a common monetary policy based on the ECU as the main reserve asset.<sup>52</sup> The paper called for the introduction of an autonomous balance sheet for the new central monetary institution, which would be based on a capital formed by contributions of international reserves received from the national central banks. Moreover, the central monetary institution would be provided with the exclusive control of the supply of ECU for the whole EEC. In addition, the document advocated for the introduction of a set of provisions to strengthen the national central banks’ demand for official ECUs, such as the requirement for national central banks to hold ECUs in the form of compulsory reserves within the central monetary institution, amounting to a certain percentage of each national central bank total liabilities. The implementation of the EEC monetary policy objectives would be realised by the central monetary institution through the management of such compulsory reserve mechanism.<sup>53</sup>

Interlinked with the future of the ECU, one of the most significant divergences in the Delors Committee was how to develop the second step towards EMU. There were conflicting views on the contents and elements of the transitional operational framework needed to achieve the irrevocable fixing of exchange rates. At the sixth meeting, which took place in Basel on 14 February 1989, positions remained far apart. Several members (Ciampi, Lamfalussy, Thygesen, De Larosière, Pöhl) wanted the Delors Report to include a section on the matter, and therefore asked for a debate on the topic to be developed in the Committee. Ciampi proposed to add a paragraph to the Report based on the draft scheme he had developed in his document “The ECU in the monetary union process”. Hoffmeyer expressed his scepticism on Ciampi’s proposal, while Boyer was not convinced it was appropriate to

51. On the history of the ECU, see P. DE GRAUWE, T. PEETERS (eds), *The Ecu and European Monetary Integration*, Palgrave Macmillan, London, 2014.

52. HAEU, TPS-186, The ECU in the monetary union process, 23.12.1988.

53. For example, if a restriction of the aggregate monetary stance was needed, the central monetary institution could increase the cost or the reserve requirement of ECU.

address such technical subjects in the report, stressing that the heads of state had to agree in Madrid on the major matters of principle, not on the technicalities, which should be negotiated in a second moment.<sup>54</sup> Mainly because of the highly symbolic value that national currencies had for some states, many in the Committee (Boyer, Godeaux, Duisenberg, de Larosière) were reluctant to promote anything more definite than a generic and rhetorical reference to the possibility of the ECU as the future European single currency. The Committee never held a concrete discussion of how to transform the ECU into a single currency.<sup>55</sup>

Although held in a cordial atmosphere, the sixth meeting showed all the tensions within the Committee. In the following month, the actions of Leigh-Pemberton and Pöhl brought the Delors Committee to the brink of collapse. The Englishman had already expressed his objections to the direction the Committee's work had taken at the beginning of February with an open letter to Delors, and became more and more obstructive as the Committee meetings went on. His primary objective was the realisation of a report that did not constrain Whitehall in a lose-lose situation. The Governor of the Bank of England's attitude must be analysed in the light of Thatcher government scepticism about EMU and further monetary integration.<sup>56</sup> However, it would be a mistake to view Leigh-Pemberton simply as a spokesperson for the political will of Margaret Thatcher. In 1987 he had supported the Basel-Nyborg negotiations. Moreover, he and Thatcher were not on good terms. As he tried to preserve his independence and that of the Bank of England from the interferences of Whitehall throughout the Committee work, their relationship worsened.<sup>57</sup> After the sixth meeting, Thatcher lost faith in Leigh-Pemberton's ability to influence the Delors Committee. On 19-20 February 1989, Thatcher met Pöhl during an Anglo-German summit in Frankfurt. As the Iron Lady believed that the German would ultimately scuttle the Delors Committee, her aim was to be reassured about Pöhl opposition to EMU. Thatcher was indeed convinced that the German central banker was hostile to the loss of monetary policy autonomy that EMU would cause for the Bundesbank. She had not understood Pöhl's true opinion: the German was not opposed to EMU if it had the right characteristics. Above all, she underestimated the constraint exerted on Pöhl and the Bundesbank by Kohl's political will to see EMU succeed. The summit was a fiasco. Thatcher's rhetoric and lack of tact during the meeting stunned the Bundesbank leaders and underlined the difference between the German and English positions on EMU.<sup>58</sup> While not agree-

54. HAEU, TPS-196, Tapes of the sixth meeting of the Delors Committee, 14.02.1989.

55. In a note, signed by Baer and Padoa-Schioppa and circulated on 31 January 1989, the authors merely pointed out that "once exchange rates are permanently fixed, the ECU will become a very close substitute for any national currency" (HAEU, TPS-186, Baer and Padoa-Schioppa "Propositions Relating to the ECU", 31.01.1989).

56. Thatcher's personal position on the EMU debate is summarised in her biography: M. THATCHER, *The Downing Street years*, Harper Collings, London, 1993, p.741.

57. The meetings between Lawson, Thatcher, Leigh-Pemberton and Howe during the Delors Committee work are described in detail by Lawson in N. LAWSON, *The view from No. 11. Memoirs of a Tory Radical*, Corgi, London, 1992, pp.907-909.

58. K. DYSON, K. FEATHERSTONE, op.cit., pp.606-608.

ing with Thatcher's tone and manner, Pöhl was also concerned about the direction the Delors Committee's work had taken. Feeling that time was running out as there were only two meetings left, he was deeply unsatisfied with the latest draft of the report, which Baer and Padoa-Schioppa had circulated on 2 March.

At the seventh meeting, which was held in Basel on 14 March 1989, Pöhl proposed more than thirty pages of amendments and challenged many of the points of convergence the Committee had found. He accused Delors and the rapporteurs of having produced "their report", omitting the positions of the other members. The German strongly criticised the lack of common constraints to better coordinate economic policy. He stressed that the participation of all member countries in the EMS was a necessary precondition for any change and development. Pöhl moreover requested a complete rewriting of the paragraphs dealing with the ECU. He refused the proposal to make it the single currency at the end of the monetary integration process, stating that he did not support its use and did not understand how a basket of currencies could be transformed into a single currency either, as German law prohibited the possibility of giving the ECU the status of legal tender.<sup>59</sup> A clash among the members erupted, and the whole process seemed at times to be compromised. Hoffmeyer expressed his agreement with Pöhl complaints. Delors and de Larosière maintained that the content of the report had been agreed upon at the previous meetings. Duisenberg pointed out that the draft proposed by the rapporteurs was a "useful basis" and was not intended to be the final version. Trying to appease Pöhl, the Dutch proposed that the competent committees at the European level would analyse the content of the Delors Report and develop "further technical work" before the intergovernmental conference for the drafting of the new treaty was convened. However, Pöhl's fury was not yet over; taking up the floor again, the German stated that the report should propose binding macroeconomic preconditions for the member states to be reached before the process towards EMU began. Realising that the time was right, Leigh-Pemberton joined Pöhl in the critique towards the work of the Committee. He reiterated his objection to a binding commitment by member states to conclude a new treaty during the first stage. He also repeated that, in his view, it was up to the heads of state to decide whether and when to fix the intergovernmental conference. Pöhl and Leigh-Pemberton's declarations were followed by a lively debate on how to give credibility to the integration process through the report. Some members (Lamfalussy, Andriessen, Duisenberg, de Larosière, Ciampi) argued that the report should give a clear political signal of commitment to the EMU process. Pöhl and Hoffmeyer took the opposite position, and the German stressed that only politicians could give a political signal. Because of the tense atmosphere and of the major differences that persisted between the members of the Committee, Delors asked the rapporteurs to produce a new version of the report which would consider the observations raised during the

59. Pöhl was referring to the Currency Reform of 20 June 1948, which stated that the Deutsche Mark was the sole legal tender of Western Germany. On the subject see *Circulation of the Deutsche Mark – from Currency Reform to European monetary union*, in: *Deutsche Bundesbank Monthly Report*, 3(2002), pp.19-35.

meeting. However, he stressed that without maintaining the compromise reached during the fifth meeting it would be impossible to reach an agreement.<sup>60</sup>

### **The eighth meeting: reaching the final agreement**

The Committee's seventh meeting seemed to have compromised the possibility of producing an unanimously approved report. The eighth meeting, the Committee's last one, was therefore preceded by a real race against time in search of a compromise that could save the work done by the Committee over the previous eight months. The rapporteurs redoubled their efforts to produce a new version of the report acceptable to all Committee members. It was clear that the key to unlocking the situation was to convince Pöhl to support it. Without his approval, the report would be meaningless, and the Delors Committee would be a failure. For this reason, Thygesen wrote a private letter to Pöhl to show him that many of the proposals made in the report were close to what the German had envisaged in his document "The further development of the European Monetary Union", and asked him for a private meeting in Frankfurt to discuss the points on which the Committee members had not yet agreed.<sup>61</sup> The weeks leading up to the eighth meeting were also characterised by the "Financial Times" disclosure of the central points of the report draft presented during the seventh meeting. The leak produced a great amount of public pressure on the Committee members, and particularly on Leigh-Pemberton.<sup>62</sup> The Englishman wrote an open letter to Delors on 21 March 1989 in which he argued that the decision to propose a new treaty lay with the heads of state and that the creation of new institutions was not the best means for European integration.<sup>63</sup>

The last meeting of the Delors Committee took place in Basel on 11-12 April 1989. The members analysed the new version of the report, which the rapporteurs had circulated on 30 March. The document was heavily modified, trying to meet the points raised by Pöhl. The German succeeded in getting the part dedicated to the ECU largely based on one of the amendments he had proposed during the seventh meeting. Concerning common budgetary rules, the need for a qualified majority of member states for the application of sanctions, in the event of non-compliance by one of the member states, was eliminated. Moreover, Pöhl managed to obtain the elimination of the institution of a weighted voting system for the future ESCB decision-making process, an element that had been strenuously defended by de Larosière. The German was not the only one to succeed in modifying the text of

60. HAEU, TPS-322, Tapes of the seventh meeting of the Delors Committee, 14.03.1989.

61. HAEU, TPS-322, Thygesen to Pöhl, 22.03.1989.

62. The episode and its potential consequences were discussed by Delors and the rapporteurs during a meeting in Brussels on 13 March 1989 (HAEU, TPS-322, Padoa-Schioppa personal notes, 13.03.1989).

63. HAEU, TPS-322, Leigh-Pemberton' open letter to Delors, 21.03.1989.

the report in line with his wishes. Leigh-Pemberton managed to get his amendments adopted so that the report made it clear that it was impossible to set a timetable in advance for the second and the third stages of the process.

The great effort made by the rapporteurs made it easier for Pöhl to maintain a cooperative attitude during the meeting. Despite the positive atmosphere, the meeting was punctuated by moments of harsh confrontation. Irish Governor Maurice Doyle was furious that many references to the need to develop regional redistributive policies he had fought hard to be included in the report were eliminated. However, he was isolated within the Committee. Leigh-Pemberton and the other members with more rigid positions on fiscal discipline had come together and got the report to propose that tax transfers should be linked only to fiscal stability parameters, scrapping any reference to unequal income levels between countries. Members with ideas more akin to Doyle's preferred to sacrifice the issue to bring home an overall deal. The most significant bone of contention during the meeting was the idea of the indivisibility of the integration process. The version of the report under discussion stated that the EMU realisation, although divided into three stages, should be seen as a single process and that the preparatory work for the new treaty should start immediately. During the meeting, Leigh-Pemberton reiterated his opposition to the paragraph, stating that the first stage toward EMU should not require the preparation of a new treaty, which could be discussed only once the first stage was completed. However, the Englishman found himself isolated. Hoffmeyer and Jaans, on whom Leigh-Pemberton was counting on to scuttle the text, requested lexical changes that did not substantially change the meaning of the paragraph. Pöhl, who had already achieved many of the changes he had requested, and who had already declared his willingness to reach an overall agreement, merely pointed out that there was the risk that the proposal for a new treaty would make the whole report be set aside by the heads of state. However, he decided not to oppose the text. Another topic of harsh discussion was the transitional phase of the ESCB and its coexistence in the definition of the monetary policy with national central banks during the second stage. Given the diversity of positions and the lack of time, the members decided not to detail the overall process but to simply outline some of the competencies that the ESCB could have during this phase.<sup>64</sup>

At the end of the second day of negotiation, Leigh-Pemberton realised that the new version of the Delors Report was a compromise that all the other members of the Committee were willing to accept. This increased the pressure on him to approve the report. Personal reasons prompted the Englishman to join the other Committee members in endorsing the document. He had perceived the British government pressure not to sign the report as an unjustifiable attack on the Bank of England independence and on the mandate he had received in Hanover. The Englishman considered that his credibility and professional reputation would be ques-

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64. The text proposes to establish the ESCB operational framework necessary to decide and implement a common monetary policy at the beginning of stage two, even if, at this point of the process, the ultimate responsibility for monetary policy would lie with the national authorities.

tioned if he refused to sign the report because of the political constraints to which he was subjected. Because of these reasons, at the end of the meeting, with the text agreed by the rest of the members, he stated to the others that he was ready to support the report.<sup>65</sup>

### Epilogue

The Delors Report was presented on 17 April 1989. Despite being received rather lukewarmly, the report was of fundamental importance for the EMU realisation. The text takes up the definition of Monetary Union already expressed in the Werner Report. The Economic Union is defined on the basis of four elements: 1) the realisation of a single market in which people, goods, services, and capital can move freely; 2) the institution of a competition policy and other measures to strengthen market mechanisms; 3) the institution of common policies aimed at structural adjustment and regional development; 4) the realisation of macroeconomic policy co-ordination, including binding rules on budgetary matters. To achieve EMU, the text recommends a three-stage process. The first stage provides for the establishment of a single market, the amendment of the 1974 Council Decision on economic convergence, and a new mandate for the Committee of Governors of the Central Banks. In the institutional field, the preparation of work for negotiating a new treaty needed to start as soon as possible. The second stage would begin with the entry into force of the new treaty. The ESCB is established. The operational framework necessary for managing the common monetary policy is created, although, in this phase, the ultimate responsibility would remain to the national authorities. The Community, therefore, creates a medium-term framework for key economic objectives and a monitoring procedure to intervene in the event of significant divergences between objectives and actual performances. Moreover, it formulates non-binding rules on the size of budget deficits and their financing. The third stage begins with the irrevocable fixing of exchange rates and the attribution to the Community institutions of the powers necessary for the full EMU realisation. The macroeconomic and budgetary rules envisaged in the second stage now become binding. The ESCB takes on all the responsibilities laid down in the treaty. The new institution would carry out the common monetary policy and would take, through its Council, all decisions relating to interventions on the foreign exchange markets.

Although started as a challenge to the status quo and as a necessity to achieve already established goals, the 1988-1989 debate around the realisation of the EMU saw deep ideological barriers break down, and a consensus emerged towards European institutional innovations. In the months following the Madrid European Coun-

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65. HAEU, TPS Archive, Folder 322, Tapes of the Eighth Meeting of the Delors Committee, 11-12.04.1989.

cil, the fall of the Berlin wall and the process of reunification of the two Germanys intertwined the process of European construction to the end of the Cold War and were certainly a factor that led to the concrete implementation of the Delors Report. However, the expression of an explicit consensus by the EC member states towards institutional innovation was already present in Madrid. The approval of the Delors Report indicated a realistic, workable, and shared path for the realisation of the monetary union, and kick-started the process to the Maastricht Treaty, the ESCB, and the introduction of the euro.