

Understanding European Integration: National Preference and Inter-State Bargaining in the Case of EMU

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Section I. Introduction

In the late 20th century, Europe introduced one of the most revolutionary monetary policies in history. It implemented a single currency, the Euro, in twelve member states. The single market was created, and monetary policy autonomy of these member states was transferred to the European Central Bank. Since the beginning of the 21st century, the European integration has been rapidly broadening and deepening; incorporating post-communist countries from Central and Eastern Europe. In Brussels, institutional reform for a European Constitution is currently under intense debate and review. Since the first step of the integration in 1952, Europe has struggled to conceptualize what kind of an entity they wanted and to devise how to integrate all the part. It involved profound institutional changes and the creation of new treaties.

Traditionally, neo-functionalism and intergovernmentalism have been the main European integration theories (see Haas 1958a, 1958b; Hoffmann 1966; Lindberg and Scheingold 1970, 1971). However, more recently, other approaches such as liberal-

intergovernmentalism, constructivism, and historical institutionalism have been gaining much attention among European Integration scholars (see Moravcsik 1991, 1993, 1998; Pierson 1996; Wendt 1992, 1999). Each theory provides different explanations as to what the main driving forces are and how the integration has been processed. Therefore, the European Economic and Monetary Union (EMU), which brought “ever-closer union” to Europe, can be a very interesting case study to test these theories. The policy evolution of EMU can answer the question as to which factors better account for the origins and the process: spillover effect and supranational entrepreneurship (see Sandholtz and Stone Sweet 1998; Haas 1968; Lindberg 1963); national preference and intergovernmentalist bargaining (see Moravcsik 1993; cf. Milward 1992; Hoffman 1966), or shared social constructions of norms and rules (see Wendt 1992; Checkel 1998, 1999).

By describing the main European integration theories- neo-functionalism, liberal-intergovernmentalism, and constructivism- and assessing them based upon the case of EMU, this paper provides theoretically-informed and empirically-proven explanations for European integration. The aim is to develop a better understanding of European integration by analyzing the most significant events in European integration history.

However, it is perhaps appropriate to ask “why study or understand European integration?”

Haas’ argument on the reason to study general regional integrations can be also employed in the case of Europe:

The units and actions studied provide a living laboratory for observing the peaceful creation of possible new types of human communities at a very high level of organization and of the processes which may lead to such conditions... We can discover whether regional peace keeping machinery is more effective than United Nations procedures, an important lesson for future modes of conflict resolution. We can also discover when and where regional processes are merely a façade for the hegemony of one member state. We can get more information about which elite learns from whom in the interactions triggered by regional processes, discover what is learned, and trace the use to which the new insight is put... We can discover whether regional common markets are really better for industrialization and effective welfare policies than is a global division of labor, whether they lead to redistribution and the equitable sharing of scarce resources – or to more competition for such spoils (1971: 4).

Studying European integration will help us understand the voluntary creation of political institutions. However, most importantly, it will allow us to advance international relations theories by explaining and analyzing recurring events (Haas 1971: 4).

In this research paper, liberal-intergovernmentalism is advanced; arguing that European integration was accelerated by national preferences, which were shaped by domestic politics and through intergovernmentalist bargaining. The liberal-intergovernmentalism proposed by Moravcsik argues that regional integration is achievable through negotiations among rational states whose preferences are formulated by national

interests (Moravcsik, 1993). Specifically, it suggests that the EMU was established as European states viewed it as a means to achieve their objectives. However, the specific schemes of the EMU were constructed through inter-state negotiation.

The validity of liberal-intergovernmentalism is tested by looking at one specific case: the European Economic and Monetary Union (EMU) – why and how the EMU happened. Progress toward the EMU can be measured by institution and regime building, interstate negotiations, and domestic politics. Therefore, empirical support for liberal-intergovernmentalism could be found in the development of institutions and transformation of negotiations between states to create regional monetary integration between 1952 and 1999. However, the absence of any evidence as to how national preferences are shaped by domestic politics, or any changes in negotiation processes, would clearly weaken the theory. Also, the evidence of shared ideas or automatic process of the monetary integration would undermine the theoretical argument which emphasizes the importance of nation states.

This argument does not contend that the EMU would have been impossible if national preferences converged or supranational entrepreneurship had a far stronger

presence during the process. Factors such as market integration, supranational governance, and ideas diffusion could have some degree of impact on the creation of the EMU. However, liberal-intergovernmentalism predicts that the integration can be explained more extensively and thoroughly through intergovernmental bargaining pursuing national interests.

The research is organized in the following way: Section 2 describes the monetary integration process from 1952 to 1999. Section 3 provides deeper understanding of independent variables by crucially reviewing competing European integration theories with a literature survey of how existing arguments have been made. Section 4 provides analysis of these theories on the evidence of the monetary integration process and policy evolutions. Lastly, section 5 synthesizes the findings and provides a proposal for future research which would strengthen the theory.

Section II. National Preference and Interstate Bargaining in EMU

The history of EMU goes back to the early 1950s when Europe saw its first integration movement through the European Coal and Steel Community. This section examines and describes the major events that facilitated the development of EMU over the past fifty

years.

The 1950's and 1960's

The first stage of the European integration came in about 1952, when the European Coal and Steel Community (ECSC) was established through the Treaty of Paris 1951. The founding members were Belgium, Germany, France, Italy, Luxembourg and the Netherlands. The goals of the ECSC were political: to constrain Germany and to preserve peace in the region. However, the means of achieving them were economic. Coal and Steel were an important resource of the western European states. Therefore, by pursuing market integration in the coal and steel industries, countries expected to deter aggressive actions in the region. Based on the success of the ECSC, the European Economic Community (EEC) was created to establish customs union, and the European Atomic Energy Community (EAEC) was founded to cooperate on the peaceful use of nuclear energy through the Treaty of Rome in 1957. Later, in 1967, the ECSC and EAEC were merged into the EEC by the Merger Treaty.

Barre Plan and Werner Report

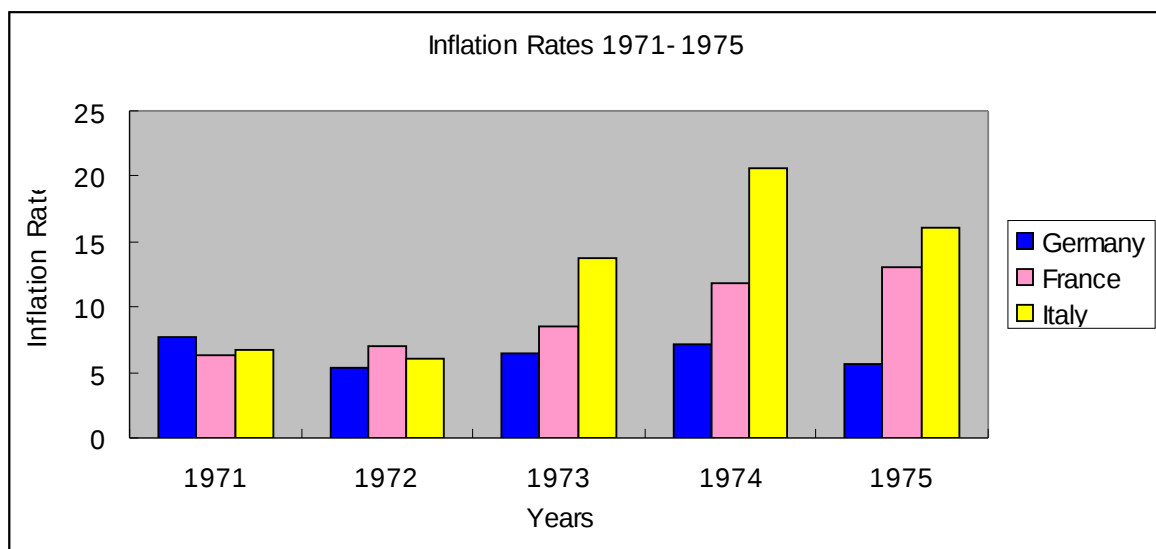
In the 60s, the idea of a single common currency emerged. However, European states were part of the Bretton Woods system of fixed exchange rates. Until the mid-60s, this system

seemed to remain stable. Nevertheless, the U.S. balance of payment crisis led to a collapse of the pegged exchange rate system in 1968. In 1969, with the concern over the unstable international monetary system, the “Barre Plan” by the European Commission re-introduced the idea of a single currency. Based on this plan, the creation of the EMU was discussed among ministers, and the “Werner Report,” published in 1970, provided specific provisions to implement the EMU by 1980. However, the collapse of the Bretton Woods system and the first oil crisis sparked by the Yom Kippur war in the 70s stalled the idea of a single currency.

European Snake

In the earlier period of the Bretton Woods international monetary system, European exchange rates were stabilized. However, the Bretton Woods system adopted 2.25% fluctuation bands in 1971, and it started to damage trade and made it difficult to administrate the Common Agricultural Policy (CAP) for European countries. Thus, Europe initiated its own exchange rate agreement, called the European Snake. This was established

Table 1. *Inflation Rates between 1971 and 1975 in Germany, France, and Italy*



Source: Thom

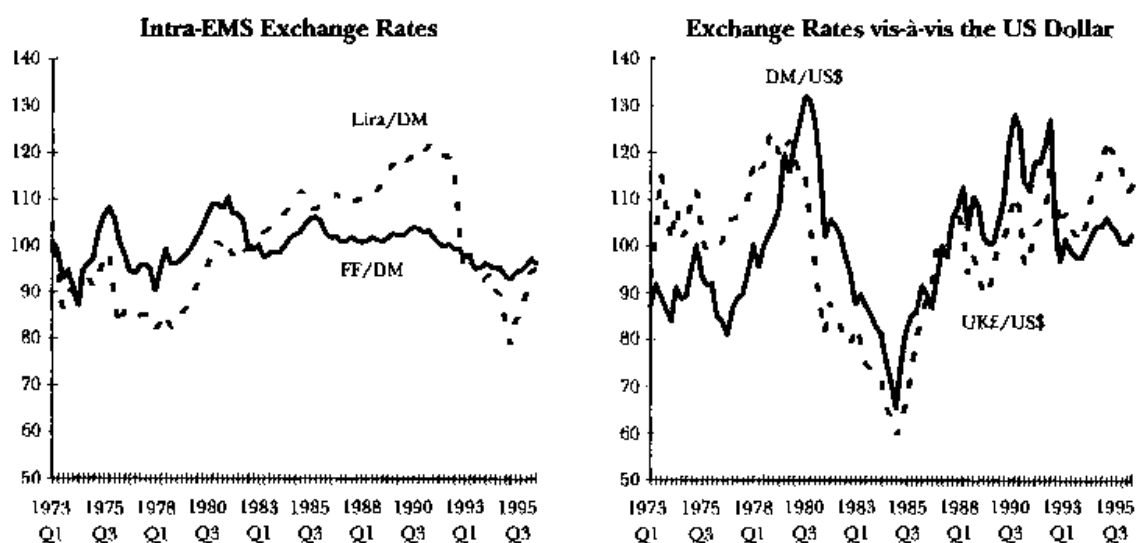
through Basel Agreement in April 1972 and allowed maximum margin of 4.5% between any two currencies and limited their fluctuation to $\pm 2.25\%$ from an agreed rate with respect to the U.S. dollar. However, the regime collapsed after a few years of operation when the Smithsonian parities were abandoned. The collapse of the Snake was largely due to the oil crisis in 1973. Despite the crisis, Germany maintained a contradictory monetary policy, while others accommodated the rise in oil prices in order to prevent higher unemployment. This resulted in a large difference of inflation rates among member states, and maintaining the Snake was impossible (see Table 1). Through this experience, Europe

learned that all member states must have similar monetary policies if they were to maintain mutually stable exchange rates (Thom).

European Monetary System (EMS)

The next European exchange rate regime, the European Monetary System (EMS) begun in 1987, provided reasonably stable exchange rates among currencies (see Heisenberg 1999; Ludlow 1982; McNamara 1988, 1999; Wyplosz 1997). The EMS adopted a similar feature to the Snake: fixed exchange rate with fluctuation bands of 2.25% up or down from the central parity. Special permission was granted for Italy and, briefly, the United Kingdom allowing 6% up or down instead of 2.25%. However, the central feature of the regime was the adjustable peg, where the bands rate, 2.25%, can be adjusted periodically on the basis of consensus among participants. By the late 1980s, the EMS was proved to be successful among businesses, politicians and academics providing a relatively stable intra-European real exchange rate during the turbulent post Bretton Woods period (see Heisenberg 1999; Wyplosz 1997; Begg and Wyplosz 1993; McNamara 1999). This is well illustrated in the Table 2. While Intra-EMS Exchange Rate shows less volatility (left **Table**

2. Bilateral Exchange Rates from 1973 to 1995



Source:Wyplosz 1997, 5

side), a large fluctuation is visible in the exchange rate vis-à-vis the U.S. dollar (Wyplosz 1997, 5). McNamara argues that the success of the EMS was “a neo-liberal 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 (1999, 456).”

The lesson learned from the European Snake experience was that member states could not pursue autonomous monetary policies if exchange rate stability was to be preserved. Due to the economic strength and its history post WWII of no devaluations,

Germany became the *de facto* leader of the system. Here, Wyplosz argues that, blinded by the success of the EMS, leading European policymakers were not aware that Germany had become *de facto* leader, and by the late 1980s, the Bundesbank was running monetary policy in the EMS (1997, 5). Walsh even put it as “asymmetrical arrangement centered on Germany (2001, 65).” This caused controversy among participants. Small countries such as the Netherlands, and countries whose priority was keeping inflation stable welcomed the leadership by the Bundesbank in adopting tough monetary policy. The United Kingdom was indifferent since they retained autonomous monetary policy by staying out of the EMS. However, other large countries such as France, Spain and Italy were dissatisfied with the German-dominated system. They also feared that their foreign currency reserves might be used up and that they would have to readjust by devaluating, raising interest rates, or by adjusting real exchange rates (Walsh 2001, 66). Struggling for power balance, member states could not agree on a common monetary policy and adjusted their parities frequently. For instance, the French franc was devalued four times between 1979 and 1987 while the German mark was revalued seven times (Walsh 2000, 49). However, EMS was advantageous for Germany who could run the policy accordingly to its economic situation.

France, more than any other states, was not content with the working of this system.

Single European Act (SEA)

Single European Act, the first revision of the Treaty of Rome, was signed in 1986 in Luxembourg by the nine member states. It was first proposed by Jacques Delors to incorporate EMS into the Treaty of Rome and to establish a single European market.

Delors defines the SEA as follows:

“The Single Act means, in a few words, the commitment of implementing simultaneously the great market without frontiers, more economic and social cohesion, an European research and technology policy, the strengthening of the European Monetary System, the beginning of an European social area and significant actions in environment (Historiasiglo20).”

In the proposals, Delors identified four issue-areas where major reform could take place:

“monetary coordination, political and defense cooperation, institutional reform, and internal market liberalization (Moravcsik 1991, 28).” However, Germany and Britain were opposed to strengthening monetary coordination and political defense cooperation, and only institutional reform and internal market liberalizations were agreed upon by Germany, France and Britain. Germany wanted greater economic stability among participants before reforming all four areas, and Britain, considering the distance created relative to other member states by its not having participated earlier in EMS, did not want any changes that

would separate them still further from the system (see Dyson 1994, 117-118). In 1985, in exchange for incorporating EMS into the SEA, Germany and Britain requested that only treaty changes through the intergovernmental conference and consensus by all member states could further a monetary union.

1987 Proposals

To reduce German influence in the system and increase the voice of other member states, three solutions were proposed: the Basle/Nyborg Agreement: a Franco-German Economic and Financial Council, and economic and monetary union.

Basle/Nyborg Agreement

The Basle/Nyborg Agreement was signed in September 1987 to create mechanisms for financing intervention and ultimately to reduce asymmetry of EMS intervention rules. Italy, Belgium and (typically) France demanded intra-marginal intervention before currencies could reach the 2.25% limits. The agreement modestly reduced the asymmetry within the system, however it did not give France what it had wanted.

Franco-German Economic and Financial Council

To increase its power in monetary policy, France proposed that the council would promote closer coordination of economic policy between Germany and France. By setting up

international obligations that would lead to a deeper coordination on interest-rate policy, France anticipated Germany's focus on inflation would be weakened. Chancellor Kohl and Foreign Minister Genscher of Germany welcomed the initiative at first, however the German Finance Ministry and the Bundesbank strongly opposed to the proposals. Chancellor Kohl later announced that the council would not undermine the independence of the Bundesbank, and two countries agreed the council to be a consultative body, rather than a decision-making institution.

Economic and Monetary Union

After the 'Black Monday' in October 1987, the limitation of EMS system had become apparent. As investors moved their funds into the safer Deutsche Mark, other currencies in the system began to approach the bottom of the fluctuation bands. In early 1988, French Finance Minister, Balladur circulated a memorandum demanding rapid reform within the system. Then, in late January of 1988, Balladur sent a proposal to Germany

Table 3. *Three Stages on Achieving Economic and Monetary Union*

<i>Stage</i>	<i>Objectives</i>
Stage 1	Complete the internal market (the 1992 program) Coordinate the economic policies of member states Remove all exchange and capital controls Bring all European Community (EC) currencies into the exchange-rate mechanism Eliminate obstacles to the private use of the European currency unit (ECU) Give the committee of central bank governors a role in assessing monetary policies and advising national governments and the Council of Ministers Prepare a treaty on monetary union
Stage 2	Establish a European System of Central Banks (ESCB) with a federal structure Transfer the functions of existing EC monetary institutions to the ESCB Leave monetary policy decisions in the hands of national authorities Narrow the fluctuation margins in the exchange-rate mechanism
Stage 3	Move to irrevocably fixed exchange rates, with eventual replacement of national currencies by a single EC currency Transfer full monetary policy authority to the ESCB Create binding rules to constrain national budget deficits

Sandholtz 1993, 15

containing a new exchange rate regime, joint monetary decision-making among all member states, and creation of a European Central Bank and a common currency. Despite rejecting several similar proposals by France in the past, Germany was more receptive this time. Genscher was interested in improving diplomatic relations with France that had been strained severely in the past. Also, he had an ambition for greater European federalism and for him this was great opportunity to demonstrate Germany's ambitions for

Europe. Despite domestic opposition, Kohl allowed Genscher to place monetary union on the agenda (Heisenberg 2006: 236-237).

The Delors Plan

In June 1988, the Hanover European Council of heads of states and government established a committee composed of central bankers and independent academics chaired by Delors to “study and propose concrete stages leading to the progressive realization of economic and monetary union (European Council 1988).” However, there were significant differences among participating states. France expected the plan to include immediate reforms to the EMS and was not interested in Germany’s “technocratic” ideas. For instance, France, Spain and Italy proposed strict deadlines for transitions and wanted quick transition to monetary union. This conflicted with Germany, who insisted that monetary union should be based on the longer-term and significant economic convergence. Also, Germany was opposed to setting explicit deadlines for transitions, rather they wanted slower transitions, implemented as certain targets were reached. Lastly, Germany proposed its key technocratic idea of an independent central bank, however neither France nor Italy wished to discuss the matter further.

Britain, on the other hand, rejected any proposals of monetary union. Britain viewed monetary union as an intrusion of national sovereignty (Dyson, 134). After

reviewing the Delors Committee's report in 1989, British Prime Minister Thatcher pressed its representative, Robin Leigh-Remberton of the Bank of England, to oppose the report, however he resisted in order to work inside the committee (Walsh 2001, 70-71).

In April 1989, the Delors report was released. The report stated three stages (see table 3) for achieving full monetary union with the objective to “reinforce the cooperation between the central banks, create an European System of central Banks, achieve a progressive transfer of decision making power on monetary policy matters to the supranational institutions and finally to fix permanently during the third stage the parities of the national currencies. These currencies would finish being substituted by the single European currency (EuroLocal Project).” The report itself reflected many of Germany's interests such as an independent central bank and greater economic convergence before monetary integration; however other participating states acknowledged the fact that Germany was important for the success of monetary union (Walsh 2001, 71; Heisenberg 2006 ,238).

Intergovernmental negotiations on EMU

European Central Bank

The most important issue for Germany was the independence and the unfettered operation of the European Central Bank. Germans did not want the ECB to be politicized or manipulated by other member states to ensure their individual economic stability. Also, they insisted that the ECB should have an authority to set exchange rate policy. However, the French opposed this idea. Giving up the monetary policy independence of Banque de France was not acceptable to them.—Remembering that France initiated the idea of monetary union in order to reduce the power of Germany in the EMS, abandoning the monetary autonomy might have seemed to be granting more power to Germany. However, Mitterand and the foreign minister, Dumas, compromised on the issue with Germany. Right before the Rome European Council in 1990, France agreed on the independence and the role in exchange rate policy of the ECB. Nevertheless, as soon as the Committee of Central Bank Governors earned central bank status, France withdrew from the earlier commitment and suggested that Ecofin should be a political counterbalance to the ECB. In 1992, the ECB was established through the Maastricht Treaty, and incorporating France's insistence, the workings on the exchange rate policy were divided between the ECB and Ecofin.

Stage Deadlines

States also had a large disparity in setting up deadlines for the three stages that were proposed in the Delors Report. The Stage 1 began on 1 July 1990, and in August 1990, a working paper was published suggesting the beginning of Stage 2 as of 1 January 1993. Germany, Britain, and the Netherlands, however, rejected the proposal. As discussed before, Germany wanted a deep economic convergence before monetary union and Britain did not welcome any system that would deepen integration among European states. Germany proposed January 1994 as a beginning date of Stage 2 under the condition that the criteria were met. The beginning date of Stage 2 was set as the Germans had wished, because before they made a consensus on the date of the IGC to be held before German federal election in December 1990. Many of the decisions were made in Stage 2, and in March 1998, the Commission announced eligible member states that could participate in Stage 3. With the introduction of Euro in January 1999, Stage 3 of EMU began in Europe.

Five Economic Convergence Criteria

Not surprisingly, Germany and the Netherlands wanted tough economic convergence criteria, while Italy asked for some degree of flexibility. And, again, Germany's

perspective was adopted, and the following were set up as five economic convergence criteria:

1. No more than 3% GDP budget deficit
2. No more than 60% GDP government debt
3. Inflation no higher than 1.5% above the average inflation rate of the three best-performing states
4. Long-term interest rate no higher than 2% above the three best-performing states
5. two-year membership of EMS without devaluing

EMS Crisis, September 1992- August 1993

German unification in 1990 brought a new contentious matter to the process and revealed instability of the EMS. Germany was under inflationary pressure due to its government borrowing in order to finance unification, and other parts of Europe went into recession. Germany, too, began experiencing economic recession and other countries needed to lower their interest rates, however the Bundesbank insisted not to lower interest rates. In summer 1992, the currency markets started to react. Accordingly, anti-Maastricht groups in Denmark were able to take advantage of the situation, and Danes voted against the Maastricht Treaty in the Danish referendum held in June 1992. In September 1992, the UK

and Italy left the EMS together. France lobbied even harder for lower interest rates, however Germany emphatically resisted this. By August 1993, the bands were extended up to 15% from the agreed $\pm 2.25\%$. Through the crisis, Germany and France felt that Europe urgently needed a monetary union while Denmark and UK decided that protection of their own economies came before joining a monetary union (Heisenberg 2006, 243).

Stability Growth Pact

In 1997, the European Council decided to adopt the Stability and Growth Pact in Amsterdam. ¶ This was proposed by Germany, who feared that countries would reduce their deficits in order to join the EMU and start spending again as soon as they were admitted (Heisenberg 2006, 244). The Pact was to “punish states pursuing expansionary fiscal policies” (Walsh 2001, 74). Countries that exceeded a 3% budget deficit would be punished automatically. However, other countries, especially, France, criticized the Pact. These governments feared that automatic penalty and the quantitative measures of the Pact would undermine the economic growth in their own countries. France wanted a more flexible and political intervention. However, in the Dublin summit of 1996, Germany’s

perspective prevailed again: despite the strict measures, the SGP allowed countries to exceed 3% deficits if their economic growth declined more than 2%.

Final Stage

In March 1998, those states eligible to join Stage 3 were announced. Italy and Belgium were included, despite their excessive budget deficits. Denmark, UK, and Sweden decided not to join as the public in these countries was against the EMU. Among all member states who applied, Greece was the only one not to be invited. However, in the summit of the European Council of May 1998, countries diverged again over a new ECB president. The head of the European Monetary Institute, Duisenberg, was selected as the first ECB president by national governments, however Jaques Chirac wanted Trichet, Governor of the Banque de France. Later, it was resolved as Duisenberg would retire in the middle of his term, however Trichet was unable to take the place until 2003 due to his legal trouble in France. Finally, in January 1, 1999, Euro was adopted as a common currency and Stage 3 began in the EMU. Euro was a common currency in the EMU countries and Denmark UK and Sweden remained outside.

Section III. Competing European Integration Theories in the scheme of EMU

With the creation of ECSC in 1952, European integration studies began. In the 1950s, Haas first developed the theory that focused on interests groups and the role of supranational government. He described how these actors influence the process of the European integration in different stages (see Haas 1955, 1958a, 1958b, 1964). In the 1960s, De Gaulle's nationalism dominated French thinking which impeded the pace of European integration; in consequence, the development of Haas' concepts stalled. In reaction to Haas' argument, Stanley Hoffman introduced an alternative theory in which he described how nation states can dictate the integration process through interstate bargaining (see Hoffman 1966). However, these competing theories faded away as the "Eurosclerosis" spread to be replaced with regime theory in the late 70s and the early 80s. Then, beginning from the mid 80s and throughout the 90s, integration began to accelerate. Traditional theories re-emerged with even more sophisticated arguments, themselves challenged by new approaches. Andrew Moravcsik redefined Hoffman's theory appending liberal theories of international relations, which explain how individual actors and voluntary

associations influence domestic politics and shape national preferences (1991; 1993, 483).

In the early 90s, Wendt introduced the ideas of social constructivism to the integration of Europe; trying to understand this by examining 'shared understanding' among European states (1992). With existing integration theories, the current debate is focusing on how useful they are. Depending on the level of analysis and which methodology to adopt, the usefulness of theories naturally varies. Hence, it is commonly agreed that different theories can explain different parts of the integration process (Verdun 2002, 9). The following section will explore three contending theories and examine how the existing literature views their usefulness in understanding the origins and the process of EMU.

1.Neo-functionalism: Spillover and Supranational Governance

Neo-functionalism was first introduced in the 1950s by Haas in order to explain the European economic integration in Western Europe. Neo-functionalism, as Rosamond says, "can be read at one level as a theory provoked entirely by the integrative activity among the original six members states (2000: 10)." Since its birth, the theory has been advanced by creator himself and other Neo-functionalists scholars such as Lindberg, Scheingold,

Nye, and Schmitter. Along with intergovernmentalism, it has been the mainstream of the integration theories and has provided the most sophisticated and extensive explanations of why and how Europe should integrate (Haas 1958a, 1958b; Lindberg 1963; Lindberg and Scheingold 1970, 1971; Nye, 1968; Pentland 1973). Neo-functionalism has focused on the origins and the process of European integration by explaining the roles of interests groups and supranational institutions and incorporating functional and political spill-over into the process (see Moravcsik 1993; Corbey 1995; Sandholtz and Stone Sweet 1998; Tranholm-Mikkelsen 1991).

The core mechanism of neo-functionalism is the “spillover” effect. It argues that once the initial step toward the integration triggers, it will lead to further economic and political integration. Based on the “converging expectations,” the underlying spillover would start from economic integration (Haas 1958b, 448). This is because the economic integration is “an inevitable response to the complexity of modern economies (Moravcsik 1993, 475).” Once the economies between countries are integrated, the volume of cross-border trades and investments increase. However, as economic interactions between countries increase, problems such as trade disputes, transaction costs, and different legal

systems will also emerge. Domestic actors – business, trade unions, interest groups- that have different but converging interests, soon discover that these problems can be solved effectively and efficiently at the supranational level in order to serve their interests. Stated simply, governments involved in this economic integration are likely to experience “spillover” effects and be pressured to integrate in other economic areas and politically for the interests of domestic actors, creating supranational institutions.

George (1996) further distinguishes two different types of spillover – *functional* and *political*. *Functional spillover* is economic. It is based on the hypothesis that economic sectors are highly dependent each other. Therefore, when one sector is integrated, it exerts pressures on other sectors to integrate as well. For example, long before the creation of the EMU, Lindberg already predicted that the removal of the tariff barriers among the member states of the EEC would lead to an integration of other economic related issues, such as harmonization of economic and taxation policies (1963: 6). On the other hand, *political spillover* is, as the name clearly shows, political. It occurs when domestic actors realize that their interests cannot be served at a national level. As economic integration deepens, cross-border problems increase and can be hardly ever

solved domestically. Soon, supranational institutions are established to create policies and to facilitate the integration process, which, as a result, would lead to further integration (Haas 1958a, 1964). Haas explains this spillover as “the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states (1958a: 16).”

Based on both functional and political spillovers, neo-functionalism emphasizes the role of supranational institutions, the European Commission, in particular, and supranational entrepreneurship. As a result of the integration, neo-functionalists expect the creation of a central political authority or a supranational government. The supranational government can provide impartial policies to participating states as it was established to accommodate common interests (Lindberg 1963: 210, 278). Supranational entrepreneurship also allows states to integrate even further. Both Lindberg and Ross emphasize the role of the Commission in the integration process. Lindberg argues that the successful integration in the 1960s was driven by the Commission, and Ross argues that the both Single European Act and the Maastricht Treaty were achievable by the

Commission under the lead of Jacques Delors who was the European Commission president from 1985 to 1995 (Lindberg 1963; Ross 1995).

In the case of the EMU, the causal mechanism assumes that the common economic and monetary policy was driven by previous economic integration such as ECSC, which integrated the coal and steel industries between the six member states, and the European Monetary System, which was launched in 1979 to provide stable exchange rates among participating currencies (see Verdun 2002). The Single European Act (SEA) in 1986, which aimed to establish a single market by 1992, also fueled the process of the EMU (Sandholtz 1993). Supranational institutions, such as the Commission and the European Central Bank (ECB) were proactive in the process of the monetary integration as well (Ross 1995).

Sandholtz specifically examines how “spillover” from the 1992 program led to the development of EMU and how Delors and the EC Commission took EMU as a functional link to the single-market program. He argues that the Maastricht Treaty increased the credibility of EC-level initiatives from the public and political leaders, which led to a change in preferences favoring the single-market program. The EC Commission tried to

sell EMU as an essential supplement to the Maastricht Treaty, and political leaders bought the idea, whether or not it was necessary. Sandholtz also argues that in the 1989 Delors Report, the EC Commission President, Jacques Delors, was in favor of advancing the EMU project. The EC Commission also agreed that EMU was a necessary step to the 1992 single market program (Sandholtz 1993, 19-20). Sandholtz's argument is based on the EC Commission documents, *Economic and Monetary Union* and *One Market, One Money* which reported that:

EMU can be seen as the natural complement of the full realization of the Single European Act and of the realization of the 1992 objective: the internal market without frontiers... The Member States and the citizens of the European Community will only fully benefit from the positive effects of the creation of the large common market and cooperation if they can use a single currency (Economic and Monetary Union 1990, 5)

If the move to EMU were not to take place, it is quite likely that either the EMS would become a less stable arrangement or capital market liberalization would not be fully achieved or maintained (One Market, One Money 1990, 17)

Simply put, EMU is necessary for the complete single-market.

McNamara, Wyplosz and Tomasso Padoa-Schioppa present similar arguments along the lines that there is a functional linkage between EMU and the single-market. If EMU doesn't happen, the CEC argues, either EMS would be weakening or the capital liberalization would not be achieved (One Market, One Money 1990, 18). Based on

‘Mundell’s Holy Trinity,’ McNamara argues that a country can only have two of the three policy options at one time: “free capital flows, a fixed exchange rate, and monetary policy autonomy (McNamara 1999, 458).” Wypolsz contends that “the Maastricht Treaty only came about because the lifting of capital controls had reduced the alternate options to just two unpalatable extremes: either allow exchange rates to float freely or accept the complete domination of Germany’s Bundesbank over Europe’s monetary policy (1997, 18).” Tomasso Padoa-Schioppa also argues that the EC have to give up one of the four options - a single market for goods and services, capital liberalization, fixed exchange rates, and monetary policy autonomy- and that monetary policy autonomy should be removed from the agenda since other three bring economic gains by increasing efficiency and reducing transaction costs (1988, 373-76).

While Sanholtz, McNamara and Tomasso Padoa-Schioppa explain the functional linkage, Ross emphasizes the role of the supranational institution. He argues that “with the 1985 announcement of the “1992” program to complete the Single Market, the European Commission had become a leading force in making the new Europe happen (Ross 1995, 2).” Unlike other international organizations, the EC was established to facilitate

integration, not simply to be a delegated institution of member states. According to Ross, two forces have interacted to allow the EC to move forward since 1985: “a changing political opportunity structure” and “successful strategizing and resource mobilization by agents for change.” He further emphasizes the role that Jacques Delors played as a president of the European Commission from 1985 to 1995 and argues that the key element of his strategy was encouraging the European Commission to rebuild Europe. Delors pursued market building by deepening economic integration and later, state building in order to allow competitive firms to flourish in a broader social setting where they could negotiate and share burdens of solidarity (Ross 1995, 4-15).

2. A Liberal-Intergovernmentalism: Rational State Behavior, National Preference and Interstate Bargaining

As the academic interests in the integration renewed in the early 1990s, a new intergovernmentalism known as liberal-intergovernmentalism was introduced by Andrew Moravcsik (1991; 1993; 1998). Liberal-intergovernmentalism is built on earlier intergovernmentalism by Hoffman, adding liberal approaches of national preference formation (Moravcsik 1991). The general argument of liberal-intergovernmentalism is as

follows:

EU integration can best be understood as a series of rational choices made by national leaders. These choices responded to constraints and opportunities stemming from the economic interests of powerful domestic constituents, the relative power of each state in the international system, and the role of institutions in bolstering the credibility of interstate commitments (Moravcsik 1998: 18).

Liberal-intergovernmentalism can be defined through its three essential elements: “the assumption of rational state behavior, a liberal theory of national preference formation, and an intergovernmentalist analysis of interstate negotiation (Moravcsik 1993: 480).” The assumption of rational states provides the fundamental basis of the theory. Rational states calculate the costs and benefits of economic interdependence and try to maximize their utilities, which consequently determine national preferences. Based on the rational state behavior, the integration occurs in two successive stages: “governments first define a set of interests, then bargain among themselves in an effort to realize those interests (Moravcsik 1993: 481).”

The first stage looks at the policy demand. It presents liberal theories of international relations that describe how national preferences are formulated. According to liberal theories, state-society relations affect national preferences. The most fundamental actors of politics are organized producer groups who are likely to be most affected by the

integration and therefore have strong incentives to mobilize (Moravcsik 1993: 483). Therefore, foreign policy goals are formulated by demands of these domestic interest groups. Also, the interest of government is to stay in office. In order to do so, they need support from private individuals, voluntary associations, parties, and bureaucracies, whose interests are likely to be reflected in their governments. While national preferences are mainly shaped by interests of domestic actors, Moravcsik also allows room for state executives' discretion when societal pressure is ambiguous or divided (1993: 484).

The second stage looks at the policy supply. It is established on rationalist bargaining theory which claims that bargaining power of states determines the outcome of international negotiations. Moravcsik provides three assumptions about interstate bargaining in the EC: "First, intergovernmental co-operation in the EC is voluntary, in the sense that neither military coercion nor economic sanctions are threatened or deployed to force agreement... Second, the environment in which EC governments bargain is relatively information-rich... Third, the transaction costs of intergovernmental bargaining are low (1993, 498)." These assumptions allow the bargaining outcomes to be efficient and reduce the influence of other factors on bargaining outcomes (Moravcsik 1993: 499).

Liberal-intergovernmentalism argues that the integration occurs when nation states, whose preferences are formulated by domestic interest groups, have interests in doing so through interstate bargaining. In addition, supranational institutions are established to serve the interests of these states. Moravcsik employs Keohane's functional regime theory, in which supranational institutions are established to reduce the transaction costs of international negotiations and to enhance monitoring and enforcement mechanisms (Keohane 1984). Moravcsik further argues that increasing controls over domestic affairs by becoming the member of the Commission provides incentives to European governments to accept the Commission. The Commission increases the power of governments in two ways: "First, they increase the efficiency of interstate bargaining... Second, EC institutions strengthen the autonomy of national political leaders vis-à-vis particularistic social groups

Table 4. *Preferences of the three largest EC member states, 1980-86*

<i>Reform</i>	<i>Germany</i>	<i>France</i>	<i>Britain</i>
Strengthening monetary coordination	Opposed, at least until capital flows are liberalized	In favor; advocates moving toward a European central bank	Opposed; is not a participant in the EMS
Strengthening political and defense cooperation	Opposed; advocates codifying current cooperation	In favor of creating the position of Secretariat-General; opposed to extending defense cooperation	Opposed; advocates codifying current cooperation
Instituting procedural reform in EC decision-making institutions	In favor of revising the treaty to strengthen Parliament's role; opposed to the Luxembourg compromise; in favor of more majority voting	In favor of revising the treaty or drafting a new treaty to allow for "variable geometry" programs; after 1984, opposed to strengthening Parliament's role, opposed to the Luxembourg compromise, and in favor of more majority voting	Opposed to revising the treaty; in favor of the Luxembourg compromise but advocates informal efforts to facilitate more majority voting
Liberalizing the internal market	In favor in principle	Opposed at first; after 1983, increasingly in favor	In favor in principle, but only if budgetary issues are resolved prior to liberalization

Source: Moravcsik 1991, 28

within their domestic polity (1993: 507).” Therefore, supranational institutions are only

acceptable when they enhance the efficiency of decision-making and serve the interests of states.

Liberal-intergovernmentalists try to explain the origins and the development of the EMU by examining the interests of nation states and interstate bargaining in the Council meetings. Moravcsik argues that in order to understand EMU, understanding interests of large member states is necessary (1998). In his 1991 article, 'Negotiating the Single European Act,' Moravcsik examines interests of France, Germany, and UK (see Table 4) and the 1985 intergovernmental conference. During the conference, France, Italy, and some others wanted to discuss the Delors proposal further as they thought it was too weak. On the other hand, Germany, Britain, and the Netherlands did not want to discuss monetary policy at the conference. Later, frustrated Germany and Britain pressured other states to agree to take no step beyond existing policies, otherwise they would block any monetary agreement (Moravcsik 1991, 42). Sandholtz and Zysman also contend that the change in the European economic structure was the political process where nations and elites within the region bargained. They label these bargains "Europe 1992" which is "a complex web of intergovernmental bargains and accommodations among the various national business

Table 5. *Proposals to Change Rules of European Monetary Institution*

<i>Cases</i>	<i>States Proposing Changes</i>	<i>Proposed Change from Status Quo</i>
Reforms to EMS (1982–84)	France, Italy	Politicized: multilateral surveillance, creation of European Monetary Fund, greater intervention obligations
Single European Act (1985)	France, Italy (supporting European Commission)	Politicized: creation of European Monetary Fund, incorporation of EMS into Treaty of Rome to give commission power to propose policy and institutional changes
Franco-German Economic Council (1987–88)	France	Politicized: bilateral treaty coordinating economic and monetary policies
Basle-Nyborg Accords (1987)	France	Politicized: multilateral surveillance, greater intervention obligations
Monetary Union (1987–88)	France, Italy	Politicized: single currency, European Central Bank, binding economic policy guidelines
Intergovernmental Conference on Monetary Union (1990–91)	Germany	Technocratic: central bank independence, fiscal policy convergence, weak coordination during transition
	France	Politicized: weakening of central bank independence, deadlines for stages of monetary union
	Italy	Politicized: dilution of convergence criteria, deadlines for stages of monetary union
Stability Pact (1994–97)	Germany	Technocratic: quantitative limits on fiscal policy with fines for violations
Euro Council (1996–97)	France	Politicized: active fiscal policy coordination, exchange rate policy, advise central bank on monetary policy

Source: Walsh 2001, 77

elites” (Sandholtz and Zysman 1989, 127).

Walsh argues that domestic politics is the main driving force for EMU. According to his argument, no states thought EMU was efficient, however for the purpose of meeting

domestic political needs, they wanted EMS. His evidence is based on ten proposals for changing the status quo institutions (See Table 5; Walsh 2001, 76). Eight out of the ten proposals originated from France and Italy, which is consistently expected in the domestic-politics explanations. Also, Germany played a leading role in intergovernmental conference and the Stability Pact to satisfy domestic political factors in national preference formation. For instance, during the intergovernmental conference, France proposed a single currency supported by politicized institutions, and Germany's proposals were in reaction to that.

The main interest of states for EMU was to regain power they lost to Germany, who became the *de facto* leader of the EMS (Howarth 2000; Heisenberg 2006; Grieco 1995; Verdun 2000; Garrett 1993; Featherstone 1996). Grieco examines how countries favored EMU to regain power by participating in monetary union, and Garrett argues that it bothered other states because of the fact that Germany played a controlling role in the process of EMS (1995; 1993). Howarth and Heisenberg closely look at how France was trying to regain power by persuading Germany to join the union. Germany was in the dominant position in the EMS and had hegemonic power over monetary policy, and

unfortunately France had to deal with it (Howarth 2000). Heisenberg argues, “the French were frustrated by the fact that they remained second-class citizens in the regime, despite the success of Mitterrand’s franc fort policy. Inflation was at German levels, but whenever the German mark appreciated because of sudden international currency inflows seeking a safe haven, the French central bank had to intervene with scarce reserves in order to prevent the franc from falling below its Deutsche Mark (Heisenberg 2006, 236).” Verdun looks at the position of Britain. Due to the success of the EMS, Prime Minister Margaret Thatcher was under pressure to join the regime. Also, because the UK entered into the Community late compared to France or Germany, they could be influential only by participating in negotiations. Britain still had doubt over EMS, however they had no other options (Verdun 2000). In the case of Italy, Featherstone argues that the Italian government attempted to strengthen its position domestically by joining EMU. Except Germany, other member states wanted the broader monetary union which would allow them to be more influential in policy decision-making process, which raises the question why Germany, then, agreed to join a monetary union?

3. Constructivism: Shared ideas

As the European integration theories revived in the 1990s, other approaches such as historical institutionalism and constructivism emerged. Among new emerging theories, constructivism has contributed considerably to the debate over European integration. Constructivism is different in nature compared to other rationalisms such as neo-functionalism and liberal-intergovernmentalism. O' Brennan once put it "whereas rationalists are in the main concerned with explaining, constructivists attempt to 'understand' the world (2000, 174)." Rather than confining specifically in the European integration debate, Constructivism approaches the integration as a wider discipline of IR (Eilstrup-Sangiovanni 2006, 393). Nicholas Onuf first introduced the term "social constructivism" in 1989, however it was Alexander Wendt, who applied the ideas of "social constructivism" to the international relations and provided theoretical groundwork in his article "Anarchy is What States Make of It: the Social Construction of Power Politics (see Onuf 1989; Wendt 1992)." Since then, many of the integration scholars have favored constructivism over rationalism. O'Brennan argues that

"it emerges that enlargement represents a puzzle for all of these approaches in that, as Schimmelfennig has suggested, none of them can explain why a process characterized in its early stages by the rational pursuit of perceived interests by EU member states somehow has ended up in a normatively determined outcome with the decision taken by the EU at the Helsinki summit, to

open negotiations with all of the candidate countries from CEE (2000,161).” Scholars such as Christiansen, Wiener, and Jorgensen further argue that constructivism offers more comprehensive explanations than intergovernmentalism or supranationalism (Christiansen, Wiener and Jorgensen 1999, 537).

Constructivism focuses on cultural and sociological perspectives, in which subjective and inter-subjective beliefs, such as norms and cultures, determine political outcomes. According to Adler, the structure of politics depends on social norms and identities which shape the interests of agents (1997, 329). Thus, politicians make decisions based on socially defined rules and norms even though this would not be related to their self interests (Thelen and Steinmo 1992, 8). Constructivists have tried to understand the European social construction of the collective rules and norms to explain the integration.

O’Brennan defines the characteristics of constructivism: “First, the structures of international life are primarily ideational and not exclusively material; and, second, the contribution made by inter-subjective shared meanings between purposive state actors decisively determines identities and interests in the international (2000, 175).” He also includes both Ruggie’s explanation of constructivism, which notes that ideational factors are both normative and instrumental and Adler’s explanation on how constructivism shows

that institutions are based on “collective understanding (2000, 175)”

The views on institutions by constructivism are different from neo-functionalism and liberal-intergovernmentalism. The rationalist theories focus on how formal institutions are important in the process of integration and strengthen the power of governments. However, constructivism argues that interests of actors are formed by informal norms and rules, and that institutions can change identities and preferences of actors. Therefore, institutions have a constitutive role in politics (DiMaggio and Powell 1991, 11; Checkel 1998, 325-7). This constitutive role works through two mechanisms: “socialization” and “social learning.” Through “socialization,” actors internalize informal norms and rules, which will determine their identity and interests (Risse and Wiener 2001, 202). Through “social learning,” actors can obtain new interests by interacting with one another (Risse 2000, 3).

Explaining the European integration, many scholars have focused on “socialization.” Checkel argues that numerous interactions between member states in EU expect to have a “socializing effect” on states (1999). Others use term “Europeanization” to explain how these interactions within European institutions will ultimately change behaviors of actors. While European institutions’ identity-forming role has been stressed,

Parsons also argues that ideas are important in the integration process (2002, 2003).

According to Parsons, the way of Europe today is constructed by certain ideas (2002, 47-55).

From constructivists' view, 'shared understanding' among member states puts the European integration forward (Fierke and Wiener 1999; Berend 1999; Risse et al. 1999; O'Brennen 2000). Berend argues that these understandings include what people perceive as 'Europe', both territorially and culturally, such as common cultural traditions and evolution, and historical experiences (1999). Risse et al. share similar a view with Berend: that collective identity constructions not only include a common territorial and cultural boundary, but also the continent's own past of conflicts and wars (1999, 154). O'Brennan also argues that these ideational conceptions depend on 'human agreement for acceptance and understanding' (2000,183).

McNamara argues how shared ideas about monetary policy played an important role in the EMU (1999). According to her, "the critical foundation for progress in European monetary integration is the economy policy convergence that occurred across the majority of the European governments beginning in the mid-1970s and solidifying in the

1980s (1999, 456).” A neo-liberal policy spread over Europe replacing the Keynesian beliefs. She also argues that while capital mobility is important in sustaining international monetary agreements, policy formation is driven by political leaders’ ideas (1999, 472).

Based on these perspectives, Walsh summarizes three steps of European monetary integration. First, during the 1970s and early 1980s, most European states, except Germany, adopted expansionary fiscal and monetary policies. However, these policies only produced higher inflation levels than in Germany and no positive influence on the economy. Therefore, in the second stage, policy makers shifted political economics toward macroeconomic discipline adopting neo-liberal ideas. The last step occurred when other states saw advantages of this technocratic model and began to adopt it as well (Walsh 2001).

Section IV. Analysis

The historical record confirms two important elements of liberal-intergovernmentalism: national preference and intergovernmentalism. This section is devoted to assess these two elements in the process of EMU. Neo-fuctionalism expects the “spillover” effect of the

1992 program and the role of the EC to influence monetary integration. Constructivism also emphasizes how the EC had been influential in national preference formation and expects nation states to move toward technocratic ideas when former policy fails. However, both neo-functionalism and constructivism have little evidence to prove their theories in EMU. Instead, bargaining between states has been intense (France, Italy, vs. Germany). Later, the UK, Denmark, and Sweden “opted-out” from the union based on domestic-politics.

Analysis I

From the European Snake to the Delors Report, the road to monetary union was paved by with interstate negotiations, where each member state wanted to set up agreements in line with its domestic political needs. On six occasions, Germany and other states had conflicting ideas. Germany insisted on tight monetary policy for low inflation and domestic stability and using interest rate policy to intervene in the currency market. Also, they were the leader of the system altering monetary policy in line with their economic situation. On the other hand, other member states, usually under the lead of France, proposed to make some changes within the system. They complained that the German

government only intervened in the currency market when it dealt with the U.S. dollar, but not with other European currencies. They wanted politicized institutions where they could reduce German power (Walsh 2001, 71). Germany kept turning down the proposals by France until Balladur proposed an economic and monetary union in 1988. Once they agreed to have a monetary union, opinions diverged between states again. France, Italy, and Spain proposed a quick transition into monetary policy with explicit deadlines of comprising three stages. Also, throughout three plans proposed in 1987-88, France kept calling for financing intervention in the exchange rate policy. On the other hand, Germany wanted a slow transition in order to have greater economic convergence. Along with Germany, Britain, which has been outside of the EMS system, wanted no change that would separate them more from other states.

There is little evidence of how 'shared ideas' led to a monetary union or EMS spill over. Clearly, between France and Germany, there were no shared ideas on monetary policy and exchange rate, which were the main issues. Also, there is little evidence of how national preference of other European states converged with Germany's technocratic interests. Rather, countries were divided into three groups: one supporting the German's

preference for technocratic institutions, another supporting France and Italy on politicized institutions, and last Britain. Even though Britain witnessed the success of the EMS, they still decided to stay out of the system. Lastly, the monetary union was proposed to fix the problems within the EMS. This contradicts the argument of neo-functionalists, which contends that the success of the EMS spilled over to the development of the EMU.

Analysis II

Both neo-functionalism and constructivism have little evidence how the EMU was able to reach Stage 3 under the supranational entrepreneurship and national preference convergence. In the 1990s, when states actually negotiated specific details of the EMU such as the stage deadlines, economic convergence criteria, and the European Central Bank, national preferences diverged further, disproving Constructivism's idea diffusion argument. France and Italy proposed politicized institutions and flexibilities in economic convergence criteria. Germany, on the other hand, pressed for the independence of European Central Bank and tight measures. The Germans prevailed in both issues. The European Central Bank became independent from national governments, however with

insistence of France, Ecofin became the counterweight to the European Central Bank. Germany succeeded in passing the Stability Pact despite much opposition from member states. Nevertheless the Pact allowed some degree of flexibility – permitting countries to exceed budget deficits if the economic growth decreased by more than 2%. However, the EMS Crisis in 1992-1993 resulting from German unification caused distrust and doubt on the EMS and the EMU. At one point, Italy's currency devalued about 7% in one week (Heisenberg 2006, 243). Feeling the pressure of currency speculators, Britain left the system on 16 September, 1992, and Italy followed Britain. In Denmark, voters disfavored the Maastricht Treaty. Instead of negotiating, Britain, Denmark and Sweden opted-out from the EMU. The failure of the Commission to encourage states to become pro-EMU and the divergence of the national preference became apparent during the EMS Crisis, when Britain, Denmark and Sweden decided to opt-out. Despite the failure of the Commission and national preference divergence, liberal-intergovernmentalism is strongly supported by obvious interstate bargaining between Germany and France and the importance of domestic-politics in the negotiations.

Section IV. Conclusion

The liberal intergovernmentalist views that the major decisions in the development of the EMU happen in two-stage approach. In the first stage, member states form national preferences, based on rational state behavior theory, where states calculate constraints and benefits imposed by economic interdependence. Throughout the EMU negotiations, Britain and Denmark doubted the workings of the EMU. They feared that the EMU would undermine their capability to protect their economies. Along the way, French and Italian governments advocated politicized institutions, while Germany insisted on technocratic ideas such as independence of the ECB. Germany's strong currency and low inflation might be hurt by politicized rules if member states attempted to influence them for their own benefits. France and Italy, who wanted a bigger voice in European monetary policy, believed that technocratic institutions would only reflect the German perspective.

In the second stage, bargaining power of states determines the outcomes of interstate negotiations. It is not an exaggeration to argue that inter-state bargaining in the EMU was a huge battle between France and Germany. The initiation of the project was proposed by the French who were dissatisfied with the Germans' leading role in the EMS.

Once Germany agreed, France and Germany battled over how to structure the EMU. France proposed politicized institutions and set deadlines for the stages of the EMU. They wanted a quick transition to a monetary union. Germany, on the other hand, insisted on an economic convergence before a monetary union, therefore refusing explicit deadlines. Germany wanted an independent European Central Bank that would determine external exchange rate policy. France and Germany had a different scheme for economic convergence. Germany wanted tough convergence criteria, and France wanted some degree of flexibility. The blueprints of the EMU incorporated many of German's ideas. The ECB earned its independent statute, and the Commission included the Stability and Growth Pact requiring states to maintain their deficits under 3%. Yet, there were some consensuses. Germany agreed on France's proposed date for the intergovernmental conference and the role of Ecofin as a counterweight to the ECB.

The findings challenge the neo-functionalism and constructivism that undermine the role of nation states in the integration process. Neo-functionalism emphasizes "spillover" effect and the supranational entrepreneurship. Scholars have argued that there was a functional link between EMU and the single market and the Commission provided a

leading role gathering states' interests furthering EMU. Constructivism, on the other hand, argues that informal shared understanding in the society determine political outcomes. The economy policy convergence in the 1980s, according to constructivists, led to a monetary union. Also, as neo-functionalists argue, the Commission changed the national preference to pro-EMU. However, the findings lead to a conclusion that domestic policy and inter-state bargaining determined the outcome of the EMU. States viewed the EMU as a means to achieve their objectives, rather than an efficient mechanism (Walsh 2001, 77).

Critics might challenge how the national preferences of Germany were opposed to the EMU. This conflicts with liberal-intergovernmentalism's two-stage approach, where states bargain with domestically determined national preferences. The role of Chancellor Kohl, who had an ambition for federal Europe, is hard to ignore. Future research, therefore, needs to pay more attention to why Germany agreed on the EMU in the first stage, while clearly other member states proposed the system to weaken the power of Germany. The starting point would be examining the influence of the Chancellor in German domestic politics and measure how Kohl's single voice mattered in the Bundestag. Adding Germany's national preference process would strengthen liberal

intergovernmentalism's understanding of the EMU even more.

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