Between national sovereignty and international power: what external voice for the euro?

KATHLEEN R. MCNAMARA AND SOPHIE MEUNIER*

> Who, exactly, speaks for Europe's single currency? We do, says the European Central Bank, because we run monetary policy, and are therefore the guardians of its worth. We do, say the governments whose countries make up the European Union, because we created the euro, and the unelected people who run the central bank should have a vocal political counterweight. Too many people already speak for it, mutter currency traders ...
>
> *The Economist*, 16 September 2000

The euro was created with the hope of providing economic benefits for the participant countries while further cementing European integration and containing the power of the Bundesbank.[1] An additional rationale, however, was the empowerment of Europe on the international stage and the raising of its stature in global economic diplomacy. In so doing, it was hoped, the euro could offer an alternative to the hegemony of the US dollar and transform the international system from a unipolar, American-dominated structure into one in which Europe constituted a power equal to the US. Currency may be, after all, one instrument of international power.[2]

The question of the international power of Europe is an important and hotly debated one. The EU is already one of the two most powerful actors in the world in the realm of trade, and it wields considerable influence in international trade negotiations. In foreign and security policy, by contrast, progress towards a unified stance has been very slow. Indeed, observers often refer to the EU as an economic giant but a political dwarf. Where does monetary integration fit into

* Earlier versions of this paper were presented at the 2001 meetings of the European Union Studies Association and the American Political Science Association, as well as the Center of International Studies Fellows Seminar at Princeton University. We thank Barbara Haskel, Randy Henning, Peter B. Kenen, Daniel Verdier and seminar participants for comments, and are grateful to several anonymous European Commission and member states officials for their time and assistance.

[1] See Wayne Sandholtz, 'Choosing union: monetary politics and Maastricht', *International Organization* 47, 1993, pp. 1–39; Andrew Moravcsik, *The choice for Europe* (Ithaca, NY: Cornell University Press, 1998); Kenneth Dyson and Kevin Featherstone, *The road to Maastricht: negotiating economic and monetary union* (Oxford: Oxford University Press, 1999); Kathleen R. McNamara, *The currency of ideas: monetary politics in the European Union* (Ithaca, NY: Cornell University Press, 1998).

[2] Jonathan Kirschner, *Currency and coercion: the political economy of international monetary power* (Princeton: Princeton University Press, 1995).

this picture? Will the euro bring about a new stage in the evolution of the EU towards a more complete international actor with real influence? Will the 'maturation of the EU' mean that 'as Europe seeks a new station and a voice commensurate with that new station' in global affairs, 'the potential for rivalry with the United States' will also increase, as one observer has argued?[3]

While the euro has the potential to move the EU towards a much more unified political federation, many observers on both sides of the Atlantic have seriously underestimated the barriers preventing Europe from speaking as a single voice, even in the relatively limited area of international monetary affairs. The nations participating in economic and monetary union in Europe (EMU) have made the dramatic step of giving up their national currencies, but they have not proved willing to relinquish their national sovereignty over its external face. Instead, the challenges of international monetary management in fora such as the G7 and IMF are met with a cacophony of voices on the part of European states that retain national policy representation despite their shared currency. We argue that as long as no 'single voice' has the political authority to speak on behalf of the euro area, as the US secretary of the Treasury does for the American currency, the pre-eminence of the US in international monetary matters, as in other realms, is likely to remain unchallenged.[4]

Creating a single voice for the euro is a perilous political endeavour, which explains why member states have so far avoided the issue. Deciding who will speak on behalf of the euro in international monetary fora raises a host of critical questions, which we will consider in this article. First, is it even necessary to have a single international voice for the euro? If so, why did the Maastricht Treaty not determine how to reconcile the different, and sometimes contradictory, interests of the member states into a common position in international monetary negotiations? In the future, what potential balance between national sovereignty and collective international power could the EU member states agree on to settle the question of who or what—the European Commission, the Council of Ministers, the European Central Bank (ECB)—should be representing the interests of the euro zone as a whole? The answers to these questions have implications for the broader political trajectory of the EU, shedding light on whether EMU will tip the balance between a federal vision of Europe and a vision of a looser collection of sovereign member states.

A single voice for the euro as an instrument of power for the EU

Is it possible to have a unified currency with no unified international representation? This section analyses what a single voice for the euro implies in terms

[3] Testimony of Professor Charles Kupchan before the House Committee on International Relations, US Congress, 25 April 2001, p. 3.

[4] Martin Walker, 'The euro: why it's bad for the dollar but good for America', *World Policy Journal* 15 3, Fall 1998, pp. 1–12; Steven Everts, *The impact of the euro on transatlantic relations* (London: Centre for European Reform 1999).

of international power, and makes comparisons with other areas of common policy-making which have an external dimension, most notably trade.

Why is a single voice needed?

A single voice for the euro is needed both to defend its value on exchange markets and to influence decisions on a range of broader macroeconomic policy issues, such as international policy coordination over fiscal, monetary and exchange rate policy, the construction of a new international financial architecture or the management of financial crises. The contexts in which these issues are played out most prominently are the G7 and the IMF, the two institutions which are the main focus of our analysis.

Speaking with a single voice on these exchange rate and macroeconomic policy issues may be attractive to the EU states for three main reasons. First, a single European monetary voice may be better able to promote the public good of international stability and contain financial crises at the systemic level. Second, in order fully to achieve their own national economic and political goals, EU member countries may require instruments of multilateral cooperation at the international level, tools that may be more effectively wielded by a unified actor. For example, in the event of a financial crisis the EU will be better able to protect its own investors by participating effectively in the IMF as a stabilization package is developed; or again, should the EU states decide that it is in their interest to pursue a fixed exchange rate agreement with the US, developing such an arrangement will be easier if the euro states can speak with one voice. Finally, the third reason for developing a single external voice for the monetary union lies in the potential for successful international representation to project the image of a unified, strong Europe to key international political and financial actors.

The list of potential benefits of a single voice for the euro is therefore a long one. But important concerns remain about the loss of sovereignty in international economic fora that is an inevitable corollary of the need to merge divergent national policy positions into a coherent unified policy. States lose the freedom and flexibility to set their own policy goals, and in creating a common position may not be able to achieve their own respective priorities. The costs become clearer when we consider the particular settings in which the EU states have historically been represented as national sovereign entities, such as the IMF where the introduction of the euro has created tensions in the continuation of this tradition. Because of these conflicts, monetary union was launched on 1 January 1999 with the question of the EU's external financial representation unresolved.[5] Most notably, the twelve euro zone countries today continue to be represented individually in the IMF while participating in numerous administrative groupings, several of which include non-EU states. In the more

[5] The Commission made a proposal for solving the external representation question in 1998, but it was rejected by the member states, as will be discussed in the next section.

informal G7 forum, only three of the twelve euro-zone countries (France, Germany and Italy) are members alongside the US, Japan, Canada and the UK.

These unresolved tensions between national sovereignty and institutional representation clearly reflect larger challenges in the EU's political development; and how they are resolved will bear on the future trajectory of the EU in important ways. However, monetary union is not the first policy area in which the EU member states have been confronted with the issue of acting in concert on the international stage. A similar set of political and institutional challenges persists in the fields of environment, competition, development aid, and foreign and security policies. There is one policy area, however, where most of these dilemmas have been resolved: international trade. Can the EU's common commercial policy thus provide an institutional template for the euro's external representation?

The EU's single voice in trade

Since the inception of the European Community as a customs union with a common external tariff in 1957, member states have had to grapple with the question of how to present a common front to the outside world. From unanimity to qualified majority voting, from exclusive Community competence to shared competence between the EU and the member states, the external trade voice of the EU has been projected through a variety of institutional arrangements, which continue to be the subject of debates even after more than four decades of successful bargaining in international trade negotiations.[6]

As with today's debates over the euro, the founding fathers of the European Community sought to achieve the right balance between national sovereignty and international power when designing the original institutions for representing the Community externally in trade negotiations. Some of the challenges they initially faced in trade policy still exist today in the financial and monetary arena. First and foremost is the need to reconcile into one coherent position the multitude of divergent positions of the member states. Another related challenge is the desire of national governments to retain some degree of control over the levers of the economy. In the trade realm this is evident in, for example, controversies over competition policy. In the monetary realm, fiscal policy becomes a key issue around which questions of sovereignty revolve, remaining within the domestic remit yet impacted upon by EMU.

Despite these similarities between the external role of the EU in trade and in monetary affairs, there are also major differences which preclude a direct transposition to the monetary arena of the institutional template developed for trade

[6] Sophie Meunier and Kalypso Nicolaidis, 'Who speaks for Europe? The delegation of trade authority in the European Union', *Journal of Common Market Studies* 37: 3, 1999, pp. 477–501, and 'Trade competence in the Nice Treaty', *ECSA Review* 14: 2, Spring 2001; Kalypso Nicolaidis and Sophie Meunier, 'Revisiting trade competence in the European Union: Amsterdam, Nice and beyond', in Madeleine Hosli and Adrian van Deemen, eds, *Institutional challenges in the European Union* (London: Routledge, 2002).

policy. One of these is the time constraint under which the major actors operate. It is quite frequent for trade negotiations to drag on for many years. If the two parties to a trade negotiation cannot come to an agreement, the status quo remains. But problems likely to prompt an international financial negotiation carry a quite different sense of urgency. In the words of a Commission official, financial crises can be compared to burning fires: they have to be quenched swiftly.[7] Therefore, financial negotiations demand more timely international cooperation and concerted action, and offer less room for give-and-take and extended negotiating tactics than is found in the trade realm.

Another difference is the number of actors who can have a claim to speak on behalf of the common policy. In the field of trade policy, the longstanding debate on the issue of competence has pitched the member states (represented by the Council) on the one hand against the Community (represented by the Commission) on the other. The main sources of contention have been the voting rules used to reach an international negotiating mandate and the extent of delegation of authority from the member states to Commission negotiators. In the monetary and financial area, there is an additional actor with a claim to external representation, namely the European Central Bank. As the ECB is designed to be independent from political bodies at both the EU and the national level, coordination with the various actors who have a stake in managing international monetary cooperation becomes even more problematic.

Another difference between the two areas is that, unlike in trade, policy regarding the euro does not include all the EU member states. Relations between the twelve euro-zone states and the three non-participant countries are sensitive in respect of the implications of exclusivity in policy-making beyond the most narrowly defined EMU issues. Britain, in particular, has been wary of allowing a process of policy formulation on topics of fiscal policy and international monetary affairs to deepen among the euro-zone states. The degree to which 'Euroland' moves forward as a coherent presence on the international stage could have serious implications for the opt-out states, making agreement on external representation even more difficult.

Finally, a critical difference is that in trade the policy-making competence has been, for the most part, exclusively transferred to the Community level by virtue of the Treaty of Rome. Moreover, both the jurisprudence of the European Court of Justice and the subsequent political tinkering with the competence issue have asserted the principle that external powers are implied by internal powers. In other words, issue areas which have been integrated at the Community level must be defended with a single voice internationally. In financial and monetary affairs, by contrast, the Treaty of Rome established only that the exchange rate and monetary policies of the member states should be of common concern, and the Treaty on European Union provided only vague direction as to the question of external representation.

[7] Author's interview with Commission official, June 2001.

Because of the extensive experience accumulated by the EU with respect to international trade representation over the past four decades, the institutions for decision-making and negotiating authority in that field seem an obvious place to look for inspiration for the design of the euro's single voice. However, the critical differences between trade policy and financial and monetary affairs mean that the institutional blueprint developed in the field of trade—with its complex design for competence sharing and voting—cannot be simply reproduced for monetary policy. If the EU is to develop a single voice for the single currency, it must strike a new balance between respect for national sovereignty and the need for efficacy and power in the international context.

Representation in practice: a political conundrum

EMU creates a fundamentally new type of political entity which does not fit into the 'one money, one nation' system of international politics.[8] This causes difficulties both for the formulation of exchange rate policy and broader monetary and fiscal policy coordination, and for the implementation of such policies in conjunction with international institutions. In particular, the ability of the EU to play a coherent role on the international monetary stage is impeded in two related ways: by the internal institutional arrangements regarding economic policy-making within the EU, and by external arrangements within international fora. The present EU institutional setting is both fragmented and burdensome, without mechanisms to reconcile the different and sometimes contradictory economic and political interests of the member states into a common position for a range of macroeconomic policy issues. In this section of the article we evaluate the present institutional setting in terms of internal EU policy coordination on exchange rate and macroeconomic policy issues, and in terms of external policy representation.

Internal representation and policy coordination in EMU

Exchange rate policy While the Maastricht Treaty clearly outlines the structure of domestic EU monetary policy and delineates the independence of the ECB in pursuing the goal of price stability in Euroland, it remains vague about the division of responsibilities in the area of exchange rate policy-making. Operational responsibility for the euro's value, through the conduct of foreign exchange operations (interventions and the daily management of exchange reserves), is the sole responsibility of the ECB. The treaty is ambiguous, however, about the locus of responsibility for the formulation of exchange rate policy.

According to article 109 of the treaty, the decision to enter into a formal exchange rate agreement with non-EU countries is the responsibility of the

[8] For discussions of other historical periods where currency and territory have not overlapped, see Benjamin J. Cohen, *The geography of money* (Ithaca, NY: Cornell University Press, 1998); Eric Helleiner, 'One nation, one money: territorial currencies and the nation-state', York University, unpublished paper, 1998.

Council of Ministers, and any such agreement would be binding on the ECB. For more informal agreements and in formulating 'general orientations' for exchange rate policy, the Council may act on proposals from the Commission and after consultation with the ECB—but only in so far as the policies do not interfere with the ECB's primary goal of price stability. As the resurrection of a formal system such as the Bretton Woods international exchange rate regime introduced after the Second World War is unlikely, the vaguer provisions regarding 'general orientations' are more relevant to the EU today. The European Council attempted to resolve some of Maastricht's ambiguities at its meeting in Luxembourg on 12 and 13 December 1997. It adopted a resolution designed to clarify article 109, stating that the Council of Economics and Finance Ministers (ECOFIN) may 'in exceptional circumstances, for example in the case of a clear misalignment, formulate general orientations for exchange-rate policy in relation to non-EC currencies'. An episode such as the attempt to halt the appreciation of the dollar under the 1985 Plaza Accord might be deemed to constitute an 'exceptional' circumstance. ECB President Wim Duisenberg has stated, however, that an exchange rate objective cannot be an appropriate monetary policy goal for the ECB, 'given that for an area as potentially as large as the euro area, such an approach might be inconsistent with the internal goal of price stability. The external value of the euro will thus mainly be an outcome of the ECB's monetary policy.'[9]

In sum, while the ECB is clearly the 'guardian' of the euro and may resist encroachment on its territory, the Council and the Commission both have significant legal grounds for shaping the overall direction of the EU's exchange rate policy. This uncertainty regarding the division of responsibility for exchange rate policy-making between ECOFIN and the ECB reflects, to some degree, national policy arrangements. Henning notes that 'in most countries, the relationship between the central bank and finance ministry is treated in legislation only vaguely, if at all.'[10] Instead, this relationship evolves over time: historically, finance ministries have played an active role in exchange rate management and policy-making. And the ECB's view that exchange rate policy will simply be subordinate to the internal objective of price stability, although enshrined in the treaty, has already been proved not the case in practice.

Macroeconomic policy The question of internal policy coordination in Euroland on broader issues of macroeconomic policy is even more contested than in the exchange rate policy area. EMU was initially designed to rely on a rule-based approach to broader macroeconomic coordination, codified in the Stability and Growth Pact, which builds on language in the treaty regarding 'excessive government deficits' (article 104c). The treaty language specifies that a government

[9] Wim Duisenberg, 'EMU: the building of one monetary system in the European Union', text of a speech delivered Tokyo, Japan, 16 Jan. 1998.

[10] C. Randall Henning, *Cooperating with Europe's monetary union* (Washington DC: Institute for International Economics, 1997), p. 32.

whose budget deficit exceeds 3 per cent of GDP or whose public debt exceeds 60 per cent of GDP may be required to correct the situation, and may be subject to sanctions and penalties if it fails to do so. Subsequent elaboration by the Council has created procedures for increased policy surveillance and outlined the penalties to be imposed when countries have excessive deficits.

However, many in Europe have argued that more flexible institutional mechanisms are necessary to provide for broader economic policy coordination and representation within Europe. In response, the 'Eurogroup' was created to serve as a preliminary political forum for more discretionary management of the euro and the EU's economy more generally.[11] The Eurogroup, which had its inaugural meeting in Luxembourg on 5 June 1998, is a subset of ECOFIN, made up of finance ministers of the euro states and acting as a forum for coordination within the euro zone. In a compromise reached among Germany, France and Britain, the non-EMU member finance ministers are allowed to attend the Eurogroup meetings, but may participate only in discussions on issues pertinent to them.

France has been the main proponent of a strong role for this forum, which some view as the key instrument by which France hopes to regain the share of political power over monetary affairs abdicated to Germany prior to the creation of EMU. Indeed, many have noted that France appears to regard the Eurogroup as an 'embryonic economic government for Europe'.[12] Moreover, Dominique Strauss-Kahn, the French finance minister at the time, argued at the inauguration of the Eurogroup that it should form a necessary political counterweight to the highly independent ECB. In this role, the Eurogroup has been promoted by the French and others as a way to coordinate national budgets in an effort to boost growth, to plan structural reforms in pensions and labour markets, and to coordinate tax harmonization to avoid fiscal competition.

In contrast, Germany has argued that the Eurogroup should serve merely as an informal body to promote information exchange, and that the Stability and Growth Pact, if adhered to, will offer adequate fiscal policy management. Britain has been even more resistant to a major role for the Eurogroup, fearing exclusion from the policy-making process if the Eurogroup gains real institutional power. Unless these political strains are resolved, forward movement along these lines among the EMU states may indeed serve to exacerbate the cleavage between the 'ins' and the 'outs', again lessening the potential for the EU to act in concert on the global economic stage.

External representation in international monetary fora

The obstacles to effective international representation and policy coordination for the euro zone are as sizeable as those facing internal EU exchange rate and macroeconomic policy coordination. The mismatch of the EU's model of a

[11] The Eurogroup was initially called the Euro-X, then the Euro-11 group.
[12] 'Dominique Strauss-Kahn, Euro-coach', *The Economist*, 30 May 1998, p. 54.

'single currency, many states' and the assumption of international financial institutions of a one-to-one relation between states and currencies critically limits the EU's ability to project its power internationally in the two key arenas in the monetary realm: the IMF and the G7. The EU member-state leaders initially agreed that the centre of power for external relations regarding EMU should be in the ECOFIN Council.[13] Yet beyond this general agreement, the EU has yet to move towards having a single, effective representative in the key areas of international policy-making. The Commission proposed in 1998 a general principle on external representation: the EU should be represented in international financial meetings jointly by the Council, the ECB and the Commission. This procedure would resemble the US system, which allows for a joint delegation headed by the chairman of the Federal Reserve and the secretary of the Treasury, although with the addition of an extra member to account for the dual-headed nature of the EU executive. Implicit in the Commission proposal was the fact that participation by the three national central bankers from France, Germany and Italy would have to be sacrificed eventually.

The member states, however, reacted to this proposal with a manifest lack of enthusiasm. Indeed, most European governments wanted to preserve the current situation as far as possible and were prepared to accept only marginal adjustments—especially since in 1998 the Eurogroup was still just a concept. At the Vienna Council of 11–12 December 1998, the heads of state and government reached an ad hoc arrangement for the external representation of the euro in the G7 and IMF.[14] The conclusions of Vienna have been implemented only partially, as they faced resistance on the part of the US and were greeted less than enthusiastically by the EU finance ministers. The present situation in both the IMF and the G7 is explained in more detail below.

The International Monetary Fund The current representation of EU member states in the IMF reflects the challenges of governing the euro when other key expressions of sovereignty remain steadfastly national. Membership in the IMF is accorded to individual countries, and this is not likely to change in the immediate future.[15] Decision-making authority rests with the IMF's board of governors, which is made up of one representative from each member state. The governors and their alternates are ministers of finance or heads of central banks, meeting formally in annual fora. The IMF's day-to-day work, however, is done by the 24 executive directors, with the managing director of the IMF as their chair.

In the current organizational structure of the IMF, EMU members are represented by a total of five separate executive directors: two representing France and

[13] Presidency conclusions, annexe 1, Luxembourg European Council, 12–13 Dec. 1997.

[14] Presidency conclusions, Vienna European Council, 11–12 Dec. 1998, SN 300/98.

[15] It remains unclear whether the IMF's Articles of Agreement legally need to be changed to incorporate or consolidate the euro states into the Fund as one entity. See Jacques Polak, 'The IMF and its EMU members', and Niels Thygesen, 'Relations among the IMF, the ECB, and the IMF's EMU members', both in Paul Masson, Thomas Krueger and Bart Turtelboom, eds, *EMU and the international monetary system* (Washington DC: IMF, 1997).

Germany, respectively, and three representing groupings of states that include non-EU member states. The ECB, as the Community body competent for monetary policy, has been granted observer status and an office at the IMF at the request of the EU heads of state, but the European Commission is not represented.

Since the euro states have a single, unified monetary policy under EMU, reorganization to represent them within a more coherent and streamlined grouping seems reasonable.[16] But the larger EU member states resist pooling sovereignty in international settings.[17] While the large states arguably gain from pooling sovereignty within the EU itself, where they continue to be dominant, they are less confident in their ability to influence outcomes in other international organizations. Consolidation may be a more attractive option for smaller states, although executive director positions are currently held by Belgian and Dutch policy-makers (representing groupings of states), and they are reluctant to give those up. There is internal pressure, however, within the IMF—mostly from Asian countries, which view themselves as relatively underrepresented—to find a solution to the problem of European overrepresentation.

Most politically sensitive, perhaps, is IMF quota reform. Quotas are the 'membership subscriptions' that provide the IMF with a pool of money to lend to members in financial difficulty and determine what can be lent out to each member; thus they largely determine members' rights and obligations. Quotas also determine the voting power of members. At the moment, EU members contribute a combined 30 per cent of IMF funds, compared with 18 per cent from the US. If EMU members pooled their quotas, however, their consolidated quota might be reduced substantially, since quotas are largely a function of trade and financial flows and 'intra-EU transactions would be excluded when calculating a consolidated quota'.[18] This would therefore imply a loss of voting weight. This issue may well come to the fore in the near future as Japan has asked that the quota discussion be put on the agenda.

Perhaps even more problematic for the EU's role in the IMF are the fundamental differences in substantive policy positions that remain across the EU national capitals despite the single currency. For example, there is no single European stance on issues such as the right IMF adjustment package for Russia, or what sort of rescue package is appropriate when Turkey faces a currency crisis. Because the willingness to move quickly and forcefully to stave off a crisis in any particular country may be a corollary of the direct economic and political stake that an EU member has in that country, it would be surprising, given the divergence in foreign policy legacies and national interests, to find agreement easy across the euro zone. Nonetheless, the Fund often needs to obtain guidance

[16] While the African CFA (Colonies française d'Afrique) monetary zone coexists with national representation in the IMF, it cannot be thought of as a useful model for the euro zone, given the differences in size and importance of the two.

[17] Interviews with EU and IMF officials, Princeton, NJ, in conjunction with a workshop on 'European Monetary Union and international economic cooperation' hosted by the International Finance Section, Princeton University, 3 April 1998.

[18] Henning, *Cooperating with Europe's monetary union*, p. 52.

from members in less than 24 hours, as the timetable in a financial crisis is rapid and delays can be damaging.

The EU therefore has a double task of institutional reorganization. Policy representation in the IMF cannot be achieved without first resolving questions about the internal organization of EU decision-making. EMU member states will need to develop strong, routinized and effective methods of policy coordination which allow them to develop positions and respond to external needs promptly and flexibly as a single actor in international financial institutions.

International cooperation in the G7 The situation in the G7 differs somewhat from that in the IMF. Here, the disjuncture is between those EMU states that are members of the G7 (France, Germany and Italy) and the non-G7 member countries. Britain, of course, is the only EU state to be in the G7 but not in the euro. The current EU G7 members are reluctant to give up their own privileged positions in favour of a single voice, potentially diluting their power. As the G7 operates as an informal club of the richest states, organizational questions can be sidestepped more easily than in the IMF.[19] An EU agreement directs the president of the ECOFIN Council, or, if the president is from a member state that is not a member of the euro zone, the president of the Eurogroup, assisted by the Commission, to participate in meetings of the G7 finance ministers. Questions remain, however, about the longer-term effects of EMU on informal economic cooperation and coordination among these powerful states.

Much of the uncertainty about the G7 arises from the differences of opinion about the ways in which the euro will be managed and whether it will become a key international currency. Should the dollar–euro rate be subject to extreme and persistent misalignments, disrupting trade relations between the two areas, it is likely that there would be some coordinated intervention in the G7 along the lines of the Plaza Accord.[20] If exchange rate stabilization is the main concern, a reduced G3 whose competence would be restricted to monetary and exchange rate matters may become more attractive. A variety of scenarios has been proposed for who would represent the EU within a G3: the head of the ECB, the European Commission, the president of ECOFIN, and/or some combination of member-state representatives.[21] In the event of a monetary crisis, it remains unclear whom the US president or Treasury secretary would call to discuss a European response. 'Officials from the 11 euro-zone member countries, the European Commission and the European Central Bank have all felt free to offer frequently conflicting views on the euro's exchange rate and its prospects. The prime candidate to be the euro's spokesman, the ECB's president, has often

[19] For example, at the G7 finance ministerial meeting in Rome in July 2001, the head of the Eurogroup, Belgian finance minister Didier Reynders, apparently attended and participated without formal discussion of his involvement. It remains to be seen whether this precedent will be repeated. Since 1976, a European Commissioner has participated in preparations for G7 summits.

[20] Fred Bergsten, 'The Dollar and the euro', *Foreign Affairs* 76, 1997.

[21] Henning, *Cooperating with Europe's monetary union*.

been contradicted by other officials.'[22] Alternatively, if the euro becomes a key currency, this also will certainly demand more unified representation within the G7, although many believe that this outcome is unlikely exactly because of the institutional fragmentation in the EU policy-making arena.

A more immediate challenge for the EU in respect of its role in the G7 is the management of emerging external crises.[23] In the past, coordination of a broad set of economic policies was thought to be an appropriate and achievable goal for the G7 summit process, as in the case of the Bonn summit of 1978.[24] In the 1980s, management of the debt crisis and efforts to moderate the swings of the dollar–yen rate dominated the agenda. In the 1990s, by contrast, international economic cooperation has focused on ameliorating the effects of currency and financial crises in Mexico, Asia and Russia. This type of policy challenge may allow EU states to continue to muddle through with the existing system of representation, but it may not produce desirable levels of action on their part.

Policy prescriptions: who should be the single voice of Euroland?

Given the political constraints under which member states operate—that is, concern for sovereignty in tandem with a desire for a more prominent role in the international monetary system—and given the lessons derived from the EU experience in trade policy, who should be the single voice of the euro? The answer to this question depends in large part on the policy goals the EU and its partners are seeking to achieve. We base our evaluation on the assumption held by some in Europe that one of the main goals of the euro is to transform the EU into a truly unified global actor while simultaneously reinforcing and stabilizing the EU's integration project more generally.

Our argument is simple. For these goals to be achieved, there needs to exist a clear system of *political* representation in the area of monetary and financial governance in the EU that allows for effective partnership with the other major economic powers in the international system. We propose that this representation be centred in the Eurogroup, which should continue to develop responsibility for coordination and communication between the national economic policy realm and the international political and financial community. The Eurogroup must, however, do this in close conjunction with the president and governing council of the ECB, as well as with the Commissioner in charge of monetary affairs. Within the Eurogroup, negotiating powers must be delegated to a single actor who can serve as a prominent and effective interlocutor with foreign officials.

[22] Reginald Dale, 'EU needs a single voice on the euro', *International Herald Tribune*, 1 Feb. 2000.

[23] Peter B. Kenen, 'EMU and transatlantic economic relations', paper presented at the conference on 'Transatlantic relations in a global economy', Hamburg World Economics Archive, Institute for Economic Research, Hamburg, Germany, revised version, 9 May 1998.

[24] Robert D. Putnam and Nicholas Bayne, *Hanging together: cooperation and conflict in the seven-power summits*, 2nd edn (Cambridge, MA: Harvard University Press, 1987).

Why not delegate to the technocrats?

Why argue for an explicitly political and representative body to form the foundation for EMU's external policy, instead of entrusting this task to the ECB or the Commission? As the legal guardian of the euro, the ECB, personified by its president, might seem a natural candidate for its external representation. However, the ECB cannot effectively play this role because of its legal independence from political bodies at both the European and the national level, and because of its narrow mandate for the governance of monetary policy and price stability. These features hamper the ECB's ability to act as a robust political partner in situations where the establishment of policy priorities and actions will be a fluid, evolving process, as is often the case in situations involving international financial cooperation. The ECB is insufficiently able to build coalitions and make policy decisions concerning the EU's overall macroeconomic policy governance, which is often part and parcel of negotiations about exchange rates and financial stability. Obviously, the ECB must be a key actor, and its foreign relations committee, which is charged with developing a common view on external issues, must be consulted; but the ECB cannot be the sole locus of authority for Euroland.

The European Commission is the other contender for the role of technocratic representative of EMU to the rest of the world. In the field of trade, it is indeed the Commission that represents the interests of the member states through a single voice in international negotiations, and Commission negotiators are accepted by the rest of the world as the only legitimate interlocutors. Member states first negotiate a common position among themselves; then they give a mandate to Commission representatives who bargain in international negotiations within the limits of this mandate; finally, Commission representatives bring back the results of the negotiations for ratification. But the specificities of the financial and monetary fields make the Commission less suited for serving as Euroland's representative. Because it is a bureaucratic body without direct political power, it cannot react flexibly and with the attention to the need for political coalition-building that might be necessary in a situation of financial crisis where bailouts are urgently needed. Moreover, since not all EU states are members of EMU, delegation of external representation to the Commission, which represents all member states, cannot work in practice. Finally, since competence over financial and monetary affairs has not been exclusively transferred to the Community level, there is no legal basis for delegating external negotiating powers to the Commission.

The Eurogroup

In contrast to the technocratic nature of the ECB or the Commission, the Eurogroup's explicitly political linkages to the national governments and their publics could be a source of both policy effectiveness and legitimacy in the

euro's external voice. This political foundation may account for the growing importance of the Eurogroup since the launch of the single currency. Under the French presidency (in the second half of 2000) the scope of its competencies expanded, with reinforced coordination on important issues such as structural reforms and fiscal policy. Germany, initially reluctant to vest political power in the Eurogroup because of the risk of compromising the independence of the ECB, gave its tacit approval in 2000 to its subsequent expansion. The momentum has increased since then, aided by the leadership of Belgian finance minister Didier Reynders, who served as its chair for 2001. The Eurogroup seems a natural place to develop more competence, made up as it is of the national finance ministers responsible at the national level for the intricacies of international monetary and financial cooperation. However, critics have raised important political and administrative concerns.

The political resistance to the strengthening of the Eurogroup comes from two sources. The first is the fear that monetary policy will become more politicized and the independence of the ECB will be compromised if the Eurogroup develops too much authority in the monetary realm. Staunch advocates of central bank independence fear that activism on the part of the politically grounded Eurogroup will challenge the authority, and hence credibility, of the ECB, potentially diluting its anti-inflationary strength. However, the comparative historical experience indicates that the presence of a strong finance ministry or treasury, even one that acts as a prominent international actor (such as the US Treasury), does not necessarily compromise the stature or credibility of the central bank.[25] Indeed, such a cohesive and effective financial authority can actually increase the effectiveness of the central bank by working to promote policies that support the central bank's goals.

The second line of attack on the Eurogroup comes from the non-euro-zone countries, especially Britain, which is anxious to prevent an increase of policy capacity in an area over which it will have little influence. These states are reluctant to give up any sovereignty and therefore cannot effectively resist developments undertaken by other states on their own. While Britain may complain, it is difficult to imagine that the non-participants will have veto power over developments in the euro area, particularly as the euro zone encompasses powerful countries with their own agendas for the Eurogroup. Indeed, the lack of a coherent policy-making body assigned to deal with the broader economic issues, both within and without the EU, will eventually hurt the non-participants themselves.

Additional concerns about the Eurogroup centre on the potential for the rotating presidency of the group to create political and administrative problems. Changing leaders every six months in tandem with the EU presidency may mean a lack of continuity, expertise and political credibility at the helm of the

[25] John Woolley, *Monetary politics* (Cambridge: Cambridge University Press, 1984); John Goodman, *Monetary sovereignty: the politics of central banking in western Europe* (Ithaca, NY: Cornell University Press, 1992).

Eurogroup. Difficulties arise when the EU presidency is held by a state not in EMU; in such cases, the heads of the Eurogroup and of ECOFIN will be different, and there will be an awkward division of labour.[26] In addition, the fact that small countries will have their turn as chair has some critics arguing that the Eurogroup will not be a prominent force in the international system, since 'not all financial heavyweights will accept the finance minister of a small EU country as a serious interlocutor'.[27] The recent experience of Mr Reynders, the Belgian minister, may challenge that view to some degree—although he was aided by the fact that, the EU presidency being held by Sweden, a non-EMU country, he served two consecutive terms in 2001. The same configuration is once again occurring in 2002, as Denmark is president of the EU and so Greece will step in for an additional six months as president of the Eurogroup. A second administrative concern is the problem that 'when the rotating president arrives at international meetings, he comes with a carefully prepared position from which he cannot budge without further consultations with the other finance ministers. This rigidity is not exactly conducive to flexible diplomacy, and certainly not in dealing with international financial crises.'[28] This is one of the rationales for the second level of change that we argue is critical if Europe truly wants to be a major player on the international financial stage: the appointment of a single individual to act as 'Mr or Ms Euro', discussed below.

Finally, there is the question of decision-making rules within the Eurogroup, should it be the central locus of authority for the euro's external representation. Whether internal EU decisions are made according to unanimity or qualified (weighted) majority will certainly impact on the EU's bargaining power in international negotiations, as well as on the outcomes of these negotiations.[29] For example, article 109 of the Maastricht Treaty calls for qualified majority voting in matters dealing with EMU policy at the international level. But, despite similar rules in the trade area, the EU in practice has made a lot of its trade policy on a basis of unanimity, not qualified majority. The downside to this procedure in international monetary matters is the potential for the IMF's decisions to be blocked by a single, small EU state if the EU's consolidated quota reached the minority blocking percentage within the IMF.[30]

Mr/Ms Euro

The EU will always be an unusually pluralistic setting for policy-making because of the need to balance power between the centre in Brussels and the national capitals. But balance can become gridlock. A single representative of EMU

[26] Author's interview with Commission official.
[27] Steven Everts, 'Economic and monetary union: a test for US–European relations', *International Spectator* 34: 4, Oct.–Dec. 1999.
[28] Ibid.
[29] Sophie Meunier, 'What single voice? European institutions and EU–US trade negotiations', *International Organization* 54, 1, Winter 2000, pp. 103–35.
[30] Henning, *Cooperating with Europe's monetary union*, p. 56.

internationally, who would attend the appropriate G7 meetings and act as a conduit for consultation with other foreign officials, could be the political point person through which the various levels and levers of EU policy-making could cross.

The role of 'Mr/Ms Euro' could be modelled on that of 'Mr CFSP'—the High Representative created in the 1997 Amsterdam Treaty to serve as single European voice in the field of foreign affairs and security policy. Member states came to the realization that one of the reasons for the failure of the Common Foreign and Security Policy stemmed from the absence of a single European interlocutor—Henry Kissinger's famous missing telephone number. The post of 'Mr CFSP' was conceived of as the sole EU spokesman for third countries, designed to provide continuity against the backdrop of the rotating presidency and to create an international identity for the EU in foreign affairs. He or she must be a political heavyweight of sufficient international stature both to facilitate the forging of a consensus within the EU and to negotiate forcefully with other countries. Some analysts have started to raise the possibility of creating a similar post for financial and monetary affairs, and we support this position.[31] Indeed, the EU currently lacks the political voice equivalent to that of the US Treasury secretary, and it seems that only a Mr or Ms Euro could provide a serious European counterpart.

Yet while it would indeed be useful to have a permanent spokesman delinked from the presidency, by itself the Mr Euro solution is no panacea. On paper, the concept of a Mr CFSP looks very attractive. But experience has shown that Javier Solana, the first and current Mr CFSP, has a very difficult and ambiguous role. He has no administration of his own and cannot make real political decisions—such as whether to send troops to Kosovo or Afghanistan. It is very likely that a Mr Euro would face the same problems. Therefore, under the current political and institutional constraints, some policy-makers, such as former French prime minister Lionel Jospin, have proposed a hybrid solution: a longer presidency of the Eurogroup, with an administrative arm, delinked from the presidency of the European Union.

Which of these options should be selected depends in part on how European leaders define their priorities, on the response of other states, and on developments in the international monetary system. If the primary goal of the EMU states is to stop the haemorrhage of sovereignty and keep their voting rights in international organizations at all costs, then there will be no forward movement along the lines we are suggesting. However, if the primary goal is to make the EU an international economic actor comparable to the US, then Europe needs to act in a unified manner internationally; and to do this it needs a reform of the rules for external representation. In addition, changes in international institutions will affect other countries and require their consent. European priorities will have to be meshed with the priorities of other actors, most notably the US but

[31] Everts, *The impact of the euro on transatlantic relations*.

also Japan. It is therefore unrealistic to expect the abrupt emergence of a unified European presence in the international economic institutions—the creation, for example, of a G3 to replace the G7. That presence is more likely to emerge pragmatically and at different speeds in different settings.

The issue of external representation has not been pursued by the Commission in the past few years because of the lack of political agreement on these issues. However, there has been movement in the area of internal policy coordination, with calls for reinforced common assessment of the economic situation in Europe, agreement on appropriate economic policy responses, and adjustment of policies being pursued.[32] Internal coordination may serve to pave the way for more coordinated external representation.

Finally, external events may well play a leading role in determining the path of change. In the short time since its inception, EMU has raised rather than reduced the number of interlocutors in international negotiations. If the member states of the EU cannot agree on how decisions regarding the euro should be made and on who should announce them to the world, it may be that only challenges coming from the international system will force institutional change. Today, the internally fragmented political authority and multilevel polity of the EU is unlikely to support firm, decisive, international action. It would be ironic indeed if, as a result of failure to reach consensus in the euro area, US dominance in international financial affairs was reinforced. This was clearly not the European intention, but it may be the practical result of failing to give the single currency a single voice.

Conclusion: international power and democratic accountability

Observers are right to see a link between the creation of the euro and the potential for the EU to evolve into a unified player in the international political system; however, they vastly underestimate the internal political barriers to this evolution. The spectacular experiment that is European monetary union began without the issue of external representation being settled. That the euro has been created at all is a tremendous political accomplishment, yet important tasks remain. The single currency needs a single voice to establish the role of Europe in the world, to promote the health of the international monetary system and to ensure the long-term success of monetary union. The absence of a unified external front may, in the long run, prevent the euro from becoming a strong currency. Therefore, we argue that the EU needs to develop a clear system of *political* representation in the area of monetary and financial governance, which could be done by strengthening the Eurogroup and appointing a Mr/Ms Euro.

The evolution of the euro's external face is likely to have several policy implications. First, how would the US receive the creation of a single voice for

[32] See e.g. 'Commission communication on strengthening economic policy coordination in the euro area', COM/2001/82/final (Brussels: Commission of the European Communities, 7 Feb. 2001).

the euro? So far, most American officials have declared that they view with favour the idea of a single European interlocutor with respect to financial and monetary matters.[33] Monetary union is, overall, in the interest of the US if it strengthens its allies and binds them closer together in a political union that is founded on democratic principles and free market goals, while offering the potential of a stable institutional framework for central and eastern Europe. Moreover, since a successful monetary union is expected to consolidate European integration in other areas, it may boost the Europeans' confidence in their common foreign and security policy—and therefore contribute to international stability and burden-sharing in a volatile world. Economically, the US can also expect to benefit from the creation of the single European currency—as long as the basic monetary preferences of the US and the EU remain aligned. In enabling decisions to be reached faster and in a more transparent way, a single European voice for the single currency would probably ensure greater efficiency of international negotiations and reduce bargaining costs.

US officials have privately stated that there are too many Europeans around the table in international financial discussions, but that the external representation of the euro zone is an internal European problem that should be resolved by the EU members themselves.[34] However, when it comes to concrete measures to set up the euro's single voice, US officials have so far not given the EU much help. The perception of EU policy-makers is that the US wants to be in the driver's seat. An EU official, speaking off the record, remarked that one former US Treasury secretary was heard to have said: 'Yes, we support the Europeans speaking with a single voice, as long as they say what we want to hear!' Indeed, beyond the ostensible acceptance of European monetary union as a benign policy development, some US policy-makers are still uneasy about the long-term effects of the euro on American interests. A 'successful' EMU, where the euro has a significant impact on the international role of the dollar, could strain US–European cooperation across the board. The transatlantic relationship has always contained elements of both rivalry and cooperation. Some believe that in the absence of a broader, shared political goal such as that which existed in the Cold War, EMU may push this relationship towards conflict and disagreement.[35]

A second important issue raised by the euro's external voice is how it will accommodate EU enlargement. The imminence of enlargement to incorporate many more countries, with disparate if not contradictory interests, poses a double sense of urgency for devising an adequate system of external representation for the euro. First, the arrangement agreed on for external representation has to function efficiently with a greater number of member states. Experience in the field of trade policy tends to suggest that institutions designed for a small

[33] C. Randall Henning, *Transatlantic perspectives on the euro* (Washington DC: Brookings Institution Press, 2000), pp. 12–17.

[34] Author's interview with Commission official, July 2001.

[35] Martin Feldstein, 'EMU and international conflict', *Foreign Affairs* 76: 65, Nov.–Dec. 1997, pp. 60–74.

number of member states do not work properly when membership greatly expands. Therefore, an informal arrangement designed for twelve members may no longer be adequate when the single voice has to represent over twenty different countries. Second, the current members may have an interest in 'locking in' their preferred institutional design before new members join. For instance, the large member states that are currently in the euro zone may prefer an arrangement that favours them at the expense of smaller states—especially before more small states become members of the EU. Both the 'efficiency' and the 'lock-in' arguments call for an urgent resolution to the institutional question of the euro's single voice.

Furthermore, the increased profile of Europe in the foreign economic policy realm raises once again the question of the so-called 'democratic deficit' of policy-making in the EU. To what degree does the transfer of sovereignty over issues of international monetary cooperation and representation in international organizations require enhanced democratic accountability at the new, EU level of governance? The two arguments most often advanced to justify the apparent absence of democratic input into many EU decisions are, first, that such decisions are more efficient and, second, that technocratic elites understand better than ordinary citizens how to govern. On the face of it, both arguments seem particularly applicable to the case of financial and monetary affairs where, first, speed of reaction and flexibility are of the essence and, second, problems are extremely complex and technical. But what are the limits of this logic? There is also a strong case to be made that, as the EU continues to consolidate policy-making capacity at the centre, it must move beyond the model of insulated decision-making without political representation. Our proposal to strengthen the Eurogroup places policy-making squarely in the hands of political representatives who are accountable to their national publics. However, it continues the tradition of elite decision-making without involvement by a direct European-level representative body, the European parliament. Oversight by the European parliament is thus critical to sustaining the legitimacy of the Eurogroup; but the Eurogroup must also have a good degree of freedom to pursue its delicate policy-making initiatives which, in certain areas, such as that of exchange rates, will not allow for pre-approval. Ideally, the presence of a Mr or Ms Euro will improve the potential for democratic accountability. It may be easier to offer accountability if citizens, and parliamentarians, have one person to praise or blame for the performance of the EU in international monetary affairs.

Finally, despite the absence of political efforts to address upfront the issue of the single voice of the single currency, there seems to be an increased awareness in Europe that the EU has a role to play in the world, and thus that more external coordination on the euro is needed. Such coordination cannot be discussed, however, independently of the broader question of the institutional future of the European Union—to be highlighted at the 2004 intergovernmental conference. Whether Europe is to become a federal state, as proposed by some German politicians, or a loose collection of member states, as proposed by

some French politicians, will undoubtedly determine whether and how a solution will be found to the practical problem of the external representation of the single currency. It is hard to imagine how the single currency could acquire a common external voice in the event that the EU turns away from a more federal future.

The debate over the single voice of the euro mimics this larger debate over the fate of European integration. On one hand, the member states want to pool forces in order to obtain at the international level the power that they can no longer exercise as individual countries. The creation of the euro is one example among others of a policy area in which the integrated whole has the potential for being bigger than the sum of its parts. On the other hand, many states are not ready to sacrifice what they have left of individual power at the international level. Relinquishing these last bits of sovereignty may be politically costly for the governments of large member states, especially as they see their control over the levers of the economy wane under the twin pressures of Europeanization and globalization. Yet the issue of external representation, which highlights very clearly the contradictory pulls of international power and national sovereignty, cannot be postponed indefinitely. If the member states do not pre-empt likely problems by tackling the institutional question of the single currency's external voice now, an external event, be it a financial crisis or EU enlargement, will likely force their hand. As the solution devised in the heat of the moment may not be the optimal arrangement, it would be desirable to confront the issue of the euro's international role before it reaches boiling point.