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Small States and the Creation of EMU: Belgium and the Netherlands, Pace-setters and Gate-keepers*

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Abstract

It is often argued that economic and monetary union (EMU) was created due to the efforts and interests of larger Member States. This article argues that the Belgian and Dutch contributions indicate that small countries played a significant role in the creation of EMU. Both countries wanted to create a zone of monetary stability in Europe and as such have led the process by example. However, their conceptions of monetary stability were different. Belgium, as a close ally of the Commission, played a pace-setting role, especially through creative and diplomatic proposals, whilst the Netherlands played the role of gate-keeper and important ally of the Germans. Following a framework developed by Helen Wallace, the article analyses how, and under what conditions, Belgium and the Netherlands played a role in the creation of EMU.

Introduction

It is often claimed that large European Union (EU) Member States, in particular France and Germany, have been the prime movers in economic and monetary

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union (EMU) (see, *inter alia,* Garrett, 1993; Heisenberg, 1999; Loedel, 1999; Moravcsik, 1998; Walsh, 2000; Wolf and Zangl, 1996). Moravcsik (1998) makes this case most forcefully in his analysis of five decades of European integration. In his view the EMU process can only be understood if one accepts that EMU served the domestic economic interests of the three most dominant Member States, that is, France, Germany and the United Kingdom. An analysis of why EMU happened often places most of the emphasis on the Maastricht Treaty negotiations and links EMU to German unification.

Realist scholars (e.g. Grieco, 1995), argue that Member States favoured EMU because it provided the EU Member States' national monetary authorities with a renewed voice in monetary policy-making. During the 1980s the monetary authorities of the exchange rate mechanism (ERM) countries of the European monetary system (EMS) *de facto* followed German policies, and thus effectively had no say in the policy-making process. Under EMU they would regain influence in monetary policy through the Governing Council of the European Central Bank (ECB). Other scholars and commentators (including many journalists) have argued that EMU succeeded only because of a deal between France and Germany. The claim is that France agreed to support German unification if Germany agreed to accept EMU (Garrett, 1992). Apart from the fact that EMU had appeared on the agenda before there was any sign of the fall of the Berlin wall,[1] French and German leaders themselves have in recent years dismissed this bold claim.

Dyson and Featherstone (1999) – who do not see the 'road to Maastricht' as being an exclusively Franco–German affair – also focus their seminal study on the role of the largest Member States. They conclude that four large Member States (the large three plus Italy) supported the EMU project, not only to protect the domestic interests of these countries (as Moravcsik argues), but also for many other reasons.[2] Elites in these countries had come to realize the importance of creating a monetary regime based on the principles of price stability and central bank independence, with the aim of institutionalizing within the EU framework the successful monetary policy convergence achieved under the EMS. Yet, Dyson and Featherstone focus predominantly on the major negotiations and in particular on the role of the larger Member States.

Without ignoring the decisive role of Franco–German negotiations at crucial moments or the importance of the large four, the construction of EMU has been a collective, multilateral achievement in which all member countries, including

[1] The Single European Act (SEA) mentions EMU. Subsequently, the so-called Delors Committee discussed a possible blueprint of EMU in the autumn and winter of 1988 and the spring of 1989. Its report was published in April 1989, well before the first signs of the demise of the communist regimes in the second half of that year.

[2] The UK was not in favour of joining EMU, but accepted it as part of the Maastricht Treaty and secured an opt-out.

the smaller ones, played a part.[3] Furthermore it is important to examine the longer historical process which shaped the conceptions and bargaining positions of the Member States.

In this context one should recall that the incorporation of EMU in the European Communities (EC) implied a revision of the Treaty of Rome. Indeed, it was decided to combine efforts and create a Treaty on European Union (TEU) which of course included more than just EMU. In Intergovernmental Conferences (IGCs) and European Council summits the strength of the negotiating position of any given country also depends on support from other countries, be they small or large. Moreover, the 1992 TEU could only enter into force if it was ratified by all (at the time 12) Member States. It is important, therefore, to examine the contributions of all Member States, including the smaller ones.

There is, in fact, one study that examines EMU and small states (Jones *et al.,* 1998). However, that study focuses only on the effects of EMU on these Member States prior to EMU and how they prepared for the impact of EMU on their domestic policies. It does not examine the role of small states in creating EMU. Jones *et al.* show that the smaller EU Member States have all had different reasons for supporting EMU, but were generally in favour of it.

A similar study (Dyson, 2002) examines the effect of EMU on selected smaller and larger Member States before and after entering stage 3 (adopting the euro). It sheds light on how EMU affects Member State policies, political structures, discourses and identity. Again, the volume explicitly does not examine the influence of these countries on the process of creating EMU.

This article examines the role of Belgium and the Netherlands in the creation of EMU. Our analysis below addresses this issue by examining at which moments in time and with what means these two countries in particular influenced the EMU process. The article examines the development from the Second World War to the entry into stage 3.

In order to make our findings more relevant to a wider community of scholars, we embed our research question into a broader framework, namely one that addresses the wider question of the role of small states in European integration. We draw on the literature on small states (e.g. Archer and Nugent, 2002), on the influence of states in bargaining (Wallace, forthcoming) and on the implementation literature that offers useful tools such as pace-setters and gate-keepers (e.g. Börzel, 2002).

The structure of the article is as follows. Section I develops a theoretical framework that we adopt to examine the role of small states in the EMU process. Section II discusses the Benelux and Belgian–Dutch monetary relations. Sections III and IV look, respectively, at the Belgian and Dutch strategies and

[3] Ludlow (1982) took this perspective in his study of the creation of the EMS.

contributions to EMU. Section V compares the two countries in light of the Wallace framework, and the final section draws conclusions about the role of Belgium and the Netherlands in the creation of EMU.

I. A Framework for Studying Small States in European Integration

There is a growing literature on the role of small states in the European Union (see, *inter alia*, Archer and Nugent, 2002; Armstrong and Read, 2002; Galloway, 2002; Katzenstein, 1985; Miles, 2002; and Thorhallsson, 2000). Though there is no satisfactory definition, some have developed criteria to evaluate the size of a small state (Archer and Nugent, 2002). With regard to EU Member States there have been debates as to how to label the smaller Member States in the EU. It is often stated that there are six large countries – France, Germany, Italy, Poland, Spain and the United Kingdom. The criteria usually are size of population and gross domestic product (GDP). Often a more subjective judgement is made to determine whether a country should be placed into one or other category.

The influence of states on the European integration process is related only in part to their size. It is extremely difficult to assess Member State influence in the EU policy-making process. This is because of the norm of consensus-building – therefore co-operative games are the typical procedure – and because governments exercise power in more indirect ways (Wallace, forthcoming, p. 9). Helen Wallace distinguishes seven sources of influence for the states in EU decision-making: (1) political weight, (2) political practice, (3) economic weight, (4) social and economic practice, (5) persuasive ideas, (6) compelling demands, and (7) credibility and consistency. In other words, nearly by definition, small states 'score' lower in categories 1 (political weight), 3 (economic weight), but can be strong in the other five.

The implementation literature identifies an interaction between implementation at the domestic level and policy-making at the EU level (see, e.g., Falkner *et al.,* 2004). Börzel (2002) has analysed Member State responses to Europeanization in the area of environmental policy. She distinguishes between 'pace-setting' (actively pushing policies at the European level to minimize implementation costs), 'foot-dragging' (blocking or delaying costly policies) and 'fence-sitting' (neither systematically pushing or blocking policies).

In the early days of the EMU process, the debate was focused on two main controversies. The first was the primary source of monetary instability (inflation or exchange rate instability). The second issue was whether moving to EMU (which implied a transfer of monetary sovereignty to the European level) would contribute to greater monetary stability. Those who believed that exchange rate instability was the main problem advocated the need to move quickly to fixed exchange rates (they were referred to as the 'monetarists', see below). The other group that felt that convergence in inflation performance needed to be secured first were aiming at having that in place before fixing exchange rates (referred to as the 'economists'). Belgium fell in the first category, the Netherlands in the second. Belgium played a 'pace-setting' role, because of its conviction that European integration needed exchange rate stability, but also because policy-makers favoured EMU in order to push through domestic reforms. The Netherlands played the role of 'gate-keeper' (which better captures Dutch concerns that EMU should guarantee price stability than 'foot-dragging'), while they had one of the best performances in the domain of monetary policies (stable exchange rates and low inflation).

The article examines the roles of Belgium and the Netherlands at various steps of the process. From the small states literature one learns that some small states are more influential than others. In order to determine whether and, if so how, Belgium and the Netherlands were influential, we adopt Wallace's framework with the seven sources of influence. Furthermore we examine how their roles can be characterized by borrowing the metaphors pace-setters and gate-keepers.

In this article the focus is mostly on official Belgian and Dutch positions.[4] It is based on official documents, archival information and the insights derived from interviews.[5] Besides focusing on the political role of the two countries we reflect on the proposals made by people representing those countries (for example the Tindemans Report). However, we do not focus in detail on the contributions of specific important individuals who have Belgian or Dutch nationality who have played an important role in European economic and monetary integration (such as, e.g., Robert Triffin, Alexandre Lamfalussy or Wim Duisenberg).

II. Benelux: A Forerunner's Role

Belgium, the Netherlands and Luxembourg founded the Benelux on 5 September 1944. The purpose was to set up a customs union between these countries as soon as the Second World War was over. There were various reasons why the three countries sought to co-operate. They are each small (neighbouring) west European countries sharing a largely common history (van Roon, 1994). In the 1940s they were confronted with the geopolitics of the day which made it evident that smaller countries could have more influence only if they joined

[4] This article refers mostly to 'official positions' of the governments (in particular Ministries of Finance) and central banks.
[5] The article draws on more than 50 background elite interviews with officials from various institutions, mostly in Belgium and the Netherlands, but also in the European institutions and some other Member States.

together. Moreover, it was a reaction against the poor economic conditions before and during the Second World War.

The first agreement between the three countries was a bilateral monetary agreement, signed on 21 October 1943 (Polak, 1994).[6] The most important elements were the fixing of mutual exchange rate parities, mutual credit lines, and permanent contacts between the central banks in order to co-ordinate policies (Grosbois 1994, pp. 50–1). The bilateral monetary agreement was the first of its kind, and in the following years other collaborative initiatives would be inspired by the Benelux agreement. Because of this political, economic and social practice, the Benelux often played a leading and pace-setting role in the Community of six. A prime example is the Benelux memorandum of April 1955 which, after the failure of the European Defence Community, relaunched the European integration process, leading to the conference of Messina and the Rome Treaties. In subsequent years the Benelux memorandum again played a significant role, especially in institutional matters. An example was the proposal for the procedure of 'reinforced co-operation', which was taken up in the Amsterdam Treaty.

The experience of Belgium, the Netherlands and Luxembourg was a basis of reflection in the negotiations for the creation of the European Economic Community. In a way, the Benelux has been considered a 'testing ground' for integration. Bloemen (1992) has christened it the 'Benelux effect'. According to some (Harryvan, 1992, p. 169) the European Economic Community (EEC) would not have existed without the Benelux experience. Not only did it function as a positive exemplary model, it sometimes served as a case that represented circumstances and conditions under which collaboration or integration among the participating countries failed. Both positive and negative cases served as examples to the EEC countries.

In the area of monetary integration, the views of Belgium and the Netherlands rather quickly started to diverge. During the 1960s and 1970s Belgium and the Netherlands still elaborated plans for monetary co-operation, despite the fact that their currencies did not remain stable *vis-à-vis* each other, and the fact that they had opposing views on the path to economic and monetary integration (Janssens, 1981, p. 364). In 1969, when the Belgians elaborated their EMU plan, they found much inspiration in the Benelux monetary agreements (Archives Snoy). When the Bretton Woods system broke down, an agreement made on 21 August 1971 limited the fluctuation margins between the guilder and the franc to 1.5 per cent. It formed the only fixed but adjustable parity

[6] The agreement was between the Netherlands, on the one hand, and Belgium and Luxembourg, on the other. Belgium and Luxembourg had had fixed exchange rates since 1921 and formed the Belgium-Luxembourg Economic Union (BLEU). In this article we discuss Belgium and the Netherlands, rather than all three countries.

mechanism in the EC until the launching of the snake in April 1972. It continued to exist even after the start of the European mechanism, which limited intra-EEC fluctuation margins to ± 2.25 per cent (known as the 'worm' in the snake). However, the Belgian–Dutch agreement was abolished in 1976. Over the next decades, the franc lost ground against the guilder. In the first decade of the EMS the guilder/franc parity was adjusted six times.

Summarizing, Belgium and the Netherlands started collaborating with Benelux very early on in the area of monetary policy-making. As such they influenced the Community through their political (2), economic and social practice (4). When the 1970s showed a difference in opinion about the road to EMU, they each contributed to the European integration process from their own perspective. Yet, although their strategies differed, they were united in supporting European integration.

III. Belgium: A Pace-setting Role

In matters of European monetary integration, Belgium was a 'consistent *demandeur*'. When EMU was on the European agenda, it came forward with carefully elaborated proposals to advance the project. Just as important, it tried to keep EMU on the agenda in difficult times. Following the Wallace typology, Belgium influenced the EU decision-making process in this area in particular through political, social and economic practice (through Benelux and by being committed to EMU), persuasive ideas (proposals for EMU and for steps that contributed towards EMU such as the divergence indicator, see below), compelling demands (the need for EMU), and credibility and consistency (in keeping EMU on the agenda, also in difficult times). Naturally, Belgium's role varied depending on the circumstances, such as the general climate of European integration, the state of the Franco-German relationship, personalities, etc.

One can distinguish different elements in Belgium's pace-setting role. A first element was the development of influential ideas and proposals to shape the debate and set the agenda, marking also out the terrain for future EMU discussions. A second element were contributions as 'policy entrepreneur', putting forward concrete proposals to advance European monetary integration. Third, Belgium played a diplomatic role, often contributing to a crucial (Franco-German) consensus on EMU issues. Before investigating these different dimensions of Belgium's pace-setting role, it is important to understand the reasons for Belgium's engagement with EMU.

Belgium as Pace-Setter

Belgium's pace-setting role in the EMU process was based on the very high degree of consensus in Belgium in favour of European integration in the post-war period (Maes, 2002; Smets *et al.,* 2003). EMU was an important objective of Belgium's European policy, as an essential element of political integration (Franck, 1998, p. 207). This consensus in favour of EMU is based on the structural characteristics of Belgium as a small open economy, its geographic location and attitudes in favour of European integration, induced by the experience of the two world wars. The consensus involved the main political parties and important social actors (such as trade unions and employers' organizations). The Christian Democrats, who dominated the post-war period, identified themselves strongly with European unification. A former Belgian Prime Minister Mark Eyskens remarked, 'Europe is like a fatherland to be loved' (Beyers and Kerremans, 2001, p. 16). The consensus extended to relations between the political and monetary authorities. Even the creation of central bank independence has not been an subject of major public debate in Belgium.

On the European scene Belgium typically was a close ally of the Commission. This closeness was based on the shared aim of a more federal Europe, the location of the Commission in Brussels and the fact that the Commissioner responsible for monetary matters has often been French (both of which facilitated contacts with the Belgian authorities).[7]

In Belgium, the EMS and EMU were also used by policy-makers as reasons to adopt and implement reforms and measures deemed necessary for reducing the severe imbalances that had emerged in the Belgian economy in the late 1970s and early 1980s. While these measures were vital for the future of the Belgian economy and society at large, their European justification was instrumental in gathering the necessary political support.

Belgium followed a stable exchange rate policy (social and economic practice). At the beginning of the 1980s, however, the Belgian economy was in very poor shape. In 1982, under a new Christian Democrat-Liberal government, there was a drastic reorientation of economic policy. At its core was an 8.5 per cent devaluation of the Belgian franc, a cut in real wages (with a temporary abolition of the wage indexation mechanism) and budgetary tightening.[8] This new policy led to an improvement in the economic fundamentals, which enabled the Belgian authorities gradually to pursue a more ambitious exchange rate policy (Lamfalussy, 2000). The new strategy was to keep the Belgian franc within the band and closer to the German mark (Godeaux, 1989). This progressive

[7] For example, at the time of the Hague summit there were good contacts between the French Commissioner Raymond Barre and Jean-Charles Snoy, the Belgian Finance Minister. They even had an exchange of their initial proposals for the summit on a confidential and personal basis (Archives Snoy). Likewise, relations between Jacques Delors and Philippe Maystadt were good (Dyson and Featherstone, 1999, p. 707).

[8] As such there is a significant difference with Belgium's 'once and for all' devaluation and Italy's macroeconomic and exchange rate policy (Maes and Quaglia, 2003).

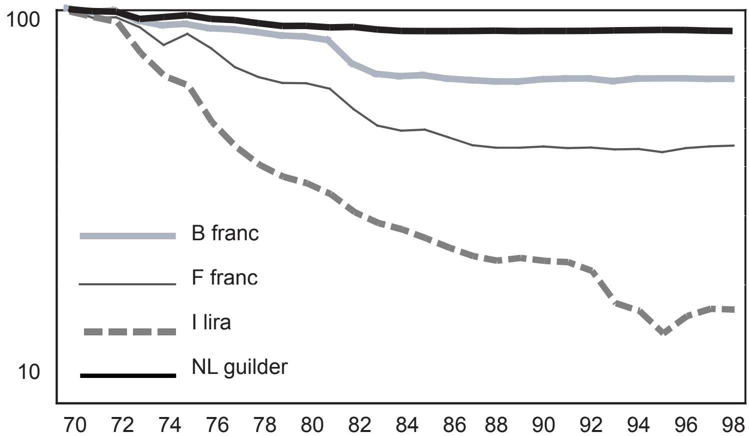

Figure 1: Exchange Rate of the Belgian Franc, the Italian Lira, the French Franc and the Dutch Guilder, against the German Mark (Logarithmic Scales, 1970=100)
Source: National Bank of Belgium.

strengthening of the Belgian franc exchange rate policy culminated in the decision, in June 1990, to peg the Belgian franc formally to the German mark.

Shaping the EMU Debate

A Symmetric EMU. The Belgian vision of the structure and functioning of EMU can be found in the Belgian plan for EMU of January 1970: 'A three-stage plan for European monetary solidarity 1971–1977' (Ministère des Finances, 1970). The ultimate aim of EMU, as stated at the Hague summit of December 1969, was the creation of a 'European monetary community'. According to the Belgian plan, two conditions had to be fulfilled: the unification of economic policies and a certain degree of homogeneity of the economies of the six Member States. This homogeneity referred not only to a degree of institutional homogeneity, but also to an absence of marked differences in the economic and social systems. Major institutional reforms were necessary for the final phase. The creation of new supranational Community institutions was crucial, implying a revision of the Rome Treaties.[9] EMU was organized around two poles: first, a 'Community Monetary System', like the Federal Reserve System in the United States and, second, a kind of economic government, *organes communautaires dotés des pouvoirs requis pour la poursuite d'une politique économique unique*. Economic policy was defined as encompassing budgetary and income policies. The new Community institutions would establish the general framework

[9] There was a clear difference between the Belgian and the French position in 1970. President Pompidou was against the creation of supranational European institutions.

within which the Member States had to administer their budgetary policy. The Community budget should gradually gain in importance.

When, during the 1991 IGC, the idea of a 'European economic government' was launched by France and the Commission, the Belgian government gave it its wholehearted support (Maystadt, 1998). Greater decision-making power for the Ecofin Council was regarded as essential both to strengthen the economic side and as a counterbalance to the monetary side, which was based on a unified monetary policy. However, the concept was not adopted in the Treaty. Economic policy remained in essence a national matter, leading to an asymmetrical EMU (Verdun, 2000). This debate contributed to Article 99 of the Treaty, which provides for the annual Broad Economic Policy Guidelines of the Member States and the Community, and a few years later to the creation of the Eurogroup.

Parallelism with a Monetarist Emphasis. The Belgian integration strategy had a 'monetarist' emphasis. Monetary co-operation and integration were seen as a catalyst for economic convergence. Thus there was no need to wait for complete convergence as the 'economists' would prefer (e.g. Ansiaux, 1970). Exchange rate stability has been central to Belgium's policies to promote European monetary co-operation. When Germany, in November 1995, proposed a 'Stability Pact for Europe', Belgium immediately reacted in a positive manner. However, the Belgian Finance Minister, Philippe Maystadt, also stressed the need to supplement the budgetary stability pact by a 'monetary stability pact'. This would focus on the exchange rates between the single currency area and the other Member States of the EU (Maystadt, 1998, p. 10). He was drawing on the idea, continuously stressed by Belgian officials, that exchange rate stability is important in a single market. Moreover, this could also help the convergence process in the other Member States. The ensuing discussions led to the creation of a new exchange rate mechanism, the so-called ERM2 (Brouhns, 1997, p. 53).

Although it took this 'monetarist' view, Belgium agreed with the consensus on the need for parallel progress in the economic and monetary spheres (de Strycker, 1970, p. 21). Apart from parallelism as a compromise solution, the Belgian authorities were convinced that monetary co-operation was not sustainable without sound economic fundamentals and economic convergence. Co-ordination of economic policy had to make a contribution here, not only by recommending suitable policy measures to Member States, but also by enhancing their effectiveness by mutual co-ordination of national measures.

Scope for Different Speeds. The concept of a multi-speed Europe is a controversial and highly sensitive one. The official discussion on this strategy was triggered by the Tindemans Report, presented at the December 1975 European

Council. It came out when a relaunch of EMU was unlikely as economic and monetary policies diverged. The report defined for the first time the elements of multi-speed integration. Member States that were in a position to make progress had to be able to do so without waiting for the ones which lagged behind (Tindemans, 1976, p. 27). The snake would provide the framework. It would become the pivot of the new strategy subject to greater co-ordination of economic and monetary policy (Rey, 1994, p. 32). The multi-speed idea met with widespread scepticism, as many feared that the Community could disintegrate. However, it gradually gained more acceptance and was eventually applied successfully in the EMS and the TEU.

Contributions as Policy Entrepreneurs

Belgium was a 'policy entrepreneur' a number of times during the EMU process, for example concerning the mechanisms of monetary solidarity (official credit and settlement facilities). The basic idea was that such mechanisms not only promoted mutual monetary co-operation, but – by demonstrating a collective stance – were also a more efficient way of averting currency speculation than isolated national measures. As chairman of the expert committee of the Werner Group, the governor of the National Bank of Belgium, Hubert Ansiaux, left his mark on the proposals designed to elaborate mutual support mechanisms (Werner, 1991, p. 24).[10] Belgium was later in favour of giving the European Fund for monetary co-operation (EFMC) sufficient responsibilities and resources to make possible, from the outset, a real co-ordination of monetary policy (Vlerick, 1974, p. 13). At the time of the EMS, the Belgian representatives continued to focus on strengthening the EC credit mechanisms.

One of Belgium's most significant contributions came in the negotiations on the monetary dimension of the Single European Act (SEA) in 1985 (de Ruyt, 1989) – the first major revision of the Rome Treaties. While EMU could not be an immediate objective, it was crucial that the treaties should mention the *acquis communautaire* in monetary matters (EMU as an aim of the Community, the EMS and the ecu). Belgium prepared its proposals carefully, manœuvred to prevent the Commission becoming isolated, and negotiated hard and tenaciously on the issue.[11] The SEA was a crucial stepping stone for further progress on EMU (Delors Report).

[10] Ansiaux gave regular overviews of the work of the Werner Group in the Committee of Governors. After his presentation of 11 May 1970, Bernard Clappier, who was also a member of the Werner Group, remarked that he could add only a few nuances, saying that he was less optimistic than Ansiaux (Minutes of the 39th Meeting of the Committee of Governors of 11 May 1970, Archives ECB).

[11] For the Ecofin of 18 November 1985, only the Commission and Belgium had submitted a contribution on the monetary dimension of the SEA (Minutes of the 1042e session, Archives NBB). After the December Luxembourg summit the delegates of the Commission, as well as those of France and Italy, informally thanked the Belgian delegation for its tenacity.

Furthering Franco–German Compromises and an EMU Consensus

It is remarkable that, even in periods of strong Franco–German co-operation (e.g. at the time of Schmidt and Giscard d'Estaing, or Kohl and Mitterrand), Belgian monetary diplomacy often contributed to resolving Franco–German monetary controversies. An example was the Belgian contribution to the preparations for the EMS (Ludlow, 1982, p. 165). The Belgian idea of the 'divergence indicator' opened the way for agreement on the provisions of the EMS resolution of December 1978, even if the instrument was subsequently hardly used. Another example is the Belgian proposal, during the 1991 IGC, to call the new second stage institution the 'European Monetary Institute' (Schönfelder and Thiel, 1996, p. 132). It was instrumental in bridging the differences between France, proposing the creation of the ECB, and Germany, in favour of a 'Council of Presidents of Central Banks'. A further example is the Belgian proposal, during the negotiations on the Stability Pact, for the definition of a severe recession, when sanctions would not apply. It distinguished two triggers, an automatic one (a decline in GDP of 2 per cent or more), on which Germany insisted, and one for which the Council of Ministers had to take a decision (a decline in GDP of between 1 and 2 per cent), as preferred by France (Quatremer and Klau, 1999, p. 132).

Thus, Belgian officials played an important role in brokering compromises and furthering consensus, even at a time of strong Franco–German co-operation. In so doing, Belgian monetary diplomacy played an active role in the EMU process.

V. The Netherlands: The Gate-keeper

Dutch Attitudes towards European Integration and EMU

As is the case with Belgium, the Dutch economy is small and open, and highly dependent on the larger world economy. As such the Dutch have typically been very much in favour of European integration. Though the focus of the Dutch was initially geared more or less equally towards both the United States and Europe, their ties to other European countries have been gradually strengthened to a point where the Dutch can be seen as being amongst the most supportive of the European integration process.

Following the Wallace typology, the Netherlands, like Belgium, influenced the EU decision-making process in this area in particular through political, social and economic practice (through Benelux and by being committed to EMU). Similarly the Dutch at times offered important persuasive ideas (strong emphasis on the type of EMU), compelling demands (the need for EMU), and credibility and consistency (in keeping EMU on the agenda, and by 'successful' monetary policies that were in line with those pursued in Germany). Again, as was the case with Belgium, the role of the Netherlands varied depending on the circumstances.

With the collapse of the Bretton Woods system in the 1970s, the Dutch authorities refocused and upgraded the importance of securing exchange-rate stability in Europe (Rood, 1990). At the time of the Werner Report, the Dutch were in favour of further economic and monetary co-operation. Their concept of EMU was different from that held by the Belgians. The end goal – EMU – was accepted, but the path to reach it was that of the 'economists'.

During 1970s, like many other states, the Netherlands had to learn the hard way that high inflation can be devastating for a small open economy. After having been hit by the oil shocks of 1973 and 1979, the Dutch realized more than ever before that their economy was fully dependent on those of others. Against this background, the Dutch monetary authorities chose to follow a policy of maintaining a 'hard guilder'. During the late 1970s and early 1980s the guilder still devalued against the D-Mark (October 1976, October 1978, September 1979, and March 1983). Thereafter there were no more exchange-rate adjustments *vis-à-vis* the D-Mark. This performance increased the influence in the categories of 'political' and 'social and economic practice', as well as in the category 'credibility and consistency'.

Supporting the German Model

Throughout the late 1960s and 1970s the Dutch monetary authorities favoured close monetary co-operation with other EC Member States. They made alliances with the Germans on policies for further economic and monetary integration. Like the Germans, the Dutch were keen to ensure that macroeconomic integration was well developed before moving towards deeper monetary integration. The Dutch and German governments both belonged to the 'economists' camp in the well-known debate between 'economists' and 'monetarists' on how best to obtain further monetary integration. Nevertheless, they favoured closer European co-operation in this area. They backed the exchange-rate agreements that were established to promote monetary and trade stability in Europe, such as the snake and the ERM, whilst at the same time promoting an EMU based on 'economist' principles.

The Dutch Strategy: Parallelism with an Economist Emphasis

The Dutch continued to prefer economic co-ordination to parallel monetary co-operation. Nevertheless there appeared to have been differences between the foreign and finance ministries about the path to EMU. The Ministry of Finance was more hesitant to accept supranational governance in this area of policy-making. Nevertheless these differences were not so fundamental that they challenged the overall Dutch perspective on EMU. The Dutch wanted EMU to be constructed within a broad framework of stability that would also include economic and monetary convergence in policy objectives and outcomes.

When first reporting on the 1970 Werner Plan to the national parliament the Dutch Minister of Finance, Johannes Witteveen, gave his initial support. He considered the plan to be in line with the Dutch view of EMU which he had personally set out in a speech only five months previously[12] (Tweede Kamer, Zitting 1970–1971, 9e vergadering 15 October 1970, p. 371). However, his major concern was that it put too much emphasis on the monetary provisions. Six months later, in the light of changes made by the European Council on 9 February 1971, the Dutch Finance Minister was considerably more satisfied with the progress of EMU. The Minister voiced the importance of considering the first stage of EMU as merely a first step, and that full economic and monetary union – rather than merely exchange rate co-operation – should be the end goal. Furthermore, Witteveen stressed the importance of making decisions on budgetary policy at the European level which would improve the overall co-ordination of budgetary policies of the Member States. This provision would ensure the parallelism between economic and monetary integration (Eerste Kamer, Zitting 1970–1971, 23ste vergadering 17 February 1971, pp. 667–8). Furthermore the Dutch warmly welcomed the significant role for the still to be established European Parliament. At this time the French were much more sceptical about transferring powers to existing and potentially newly created supranational institutions.

Though the economic situation changed in Europe in the 1970s, the Dutch did not give up hope of creating EMU. In 1976, the then Minister of Finance, Wim Duisenberg, put forward a plan to improve the co-ordination of economic policy and the management of exchange rates. The 'Duisenberg plan' was in line with the 'economist tradition' in that it aimed at consultation and co-ordination of economic policy (see Oort, 1979). However, the plan assumed only voluntary co-ordination.

In the late 1970s and early to mid-1980s the Dutch economy suffered from low economic growth, rising unemployment and lack of competitiveness (Szász, 1988, pp. 208–9). The Dutch monetary authorities reacted to this situation by deciding among other things to pursue a strong currency policy and closely follow German monetary policies (see Verdun, 2002, pp. 241–2). They aimed at securing fixed exchange rates between the guilder and the D-Mark and this policy objective was maintained until the launch of the euro in 1999. The Dutch exchange rate *vis-à-vis* the D-Mark had been the most stable of all ERM currencies during the two preceding decades.

[12] Speech to the Amsterdam Chamber of Commerce on 26 May 1970.

The Dutch were reflecting not only on their own performance. The issue of who would qualify to join the third stage of EMU was a Dutch topic of concern. When the ERM was under pressure, the idea of a 'two-speed' EMU was often discussed. The Dutch were among those who advocated a two-speed EMU if some states failed to meet the convergence criteria and also urged strict adhesion to the timetable (*Het Financieele Dagblad*, 1993). Yet they did not want to compromise on the convergence criteria. The Dutch were often outspoken advocates of the German model. For example, to ensure low inflation, they advocated adopting money supply targets and monetary instruments similar to those in Germany, rather than relying on inflation targeting as the British advocated (*Financial Times,* 1995). On various occasions, when the performance of states like Italy, France and other southern European states in meeting the convergence criteria was poor, the Dutch suggested going ahead with a smaller group. Thus Duisenberg, at this point Dutch Central Bank President, stated that an EMU without Italy was possible, but it would be unthinkable without France. France should be able to join by 'a political judgment' (*Financial Times*, 1995). On another occasion, a Dutch official argued that the whole EMU project would lose credibility if Italy was allowed to join. In 1996, when the former French President Valéry Giscard d'Estaing suggested the idea of loosening the convergence criteria, the Dutch were again at the forefront, arguing that such an idea was unacceptable (*Algemeen Dagblad*, 1996). By November 1996 prominent Dutch figures, such as former central banker André Szász, advocated that EMU should start with a small group (*NRC Handelsblad,* 1996).

Dutch Leadership in the Run-up to the Maastricht Treaty and Beyond

The Netherlands was influential in the relaunch of EMU in the late 1980s and early 1990s, particularly during the IGCs. During the negotiations on the SEA in November 1985, the Dutch tabled an important compromise proposal on the monetary dimension of the SEA, contributing to German acceptance of this idea (de Ruyt, 1989, p. 179). In the second half of 1991, the Dutch government, headed by Prime Minister Ruud Lubbers, held the rotating presidency of the EC when the Maastricht Treaty was negotiated. The Dutch negotiators in the IGC on political union adopted a very proactive approach at the start of their presidency, launching an ambitious proposal to reform the institutional structure of the EC to adopt a 'tree-like structure' (persuasive ideas). Nevertheless, this proposal for political union went too far for many states, which meant that the Dutch had to withdraw it and return to the draft treaty of the previous Luxembourg presidency.

With regard to EMU negotiations, they also made a provocative start. In late August 1991 the Dutch tabled a so-called 'technical paper', which toyed with the idea of introducing a 'two-speed Europe' (*Financial Times,* 1991a).

This proposal was aimed at being able to start off with a hard core of states who were ready (e.g. Germany and the Benelux) and leaving behind some countries that would need longer to converge (e.g. Italy, Spain, Portugal and Greece). It would also allow countries that were more sceptical about EMU a path for slower participation (notably the UK and Denmark). This proposal met with objections from the southern Member States (*Financial Times*, 1991b). throughout the remainder of the autumn the Dutch worked on a compromise that would keep the Germans on board (who were only interested in an EMU that would not endanger the price stability objective), whilst at the same time finding wording that would be acceptable to even the most sceptical countries, the UK and Denmark. The end result was the successful incorporation of EMU into the TEU with opt-outs ('derogations'). Furthermore EMU would only start with those countries who had met the convergence criteria.

When the idea of an economic government was launched during the IGC leading up to the Maastricht summit, the Dutch sided with the Germans in being highly sceptical of such an institution (Verdun, 2003). Like the Germans, they feared that the ECB would be subject to too much intervention by political authorities. On the other hand, when the EMU blueprint was being discussed, the Dutch became more accepting of an EMU that was based more on exchange rate co-operation and a single currency, even if further economic co-operation was not guaranteed as would have been the case if a fully parallel EMU had been created. Again, the Dutch sided with the Germans while brokering a deal with the others.

Though taken up in the Treaty, EMU was by no means completely settled in 1991. The interpretation of the convergence criteria would remain a hot political topic. The Germans were concerned, once EMU became fully operational, that some countries might return to their old practices of high levels of public borrowing and high levels of inflation. The Dutch were among the countries most supportive of the Germans and thus spoke up about their concerns. As already mentioned above, the Dutch–German relationship had been carefully crafted throughout the 15 years prior to signing the Treaty on European Union (Brouwer, 1999). Also, the German government had to do a careful balancing act between being proactive on what it considered important, and not seeming to be too dominant within the broader European context.

One could characterize the Dutch role in the EMU process as consisting of continuously trying to accommodate the Germans whilst keeping the other Member States on board.[13] Given their good relations with the UK the Dutch could often be seen doing a 'east–west' balancing act mediating between the UK and Germany, whilst at the same time trying to accommodate the voices from the south.

[13] For an analysis of this behaviour in the Stability and Growth Pact, see Heipertz and Verdun (2004).

V. Applying the Wallace Framework

Turning to Wallace's framework, Belgium and the Netherlands influenced the EMU process through political practice, social and economic practice, persuasive ideas, compelling demands, and credibility and consistency. The findings are summarized in Table 1.

They offered success in the area of political practice and social and economic practice through their Benelux experience. For example, Belgium and the Netherlands had already concluded a bilateral monetary agreement in 1943. In the monetary area, they contributed persuasive ideas, but it is important to stress that these ideas were different from one another. They had different visions as to what road to EMU the Community should take. They made compelling demands which enabled them to put EMU on the agenda at a time when the larger Member States did not have that aim as an important priority. Their credibility and consistency allowed their voices to have significant weight throughout the process.

In matters of European monetary integration, Belgium was a 'consistent *demandeur*'; it played a pace-setting role. As in many other areas, it was often a close ally of the European Commission. The content of Belgian persuasive ideas can be characterized as monetarist. Typical of the Belgian approach, such as in the Belgian contribution to the Werner Report, were proposals for furthering exchange rate stability and monetary co-operation, the underlying aim being that they would act as a catalyst for economic and political integration. It gave the Belgian EMU strategy a monetarist accent, even if Belgium agreed from the start to the need for parallel progress in the economic and monetary spheres. One of its constant concerns was to have EMU on the agenda in difficult times.

The Dutch persuasive ideas were in the 'economist' tradition, based on pushing for economic co-ordination prior to further monetary integration. The Dutch were firmly in support of the initiatives of the Germans, but were equally eager to find a compromise solution that would work for the monetarists (Belgium, France and Luxembourg). Like the Belgians, the Dutch remained firmly in support of economic and monetary integration.

Throughout the whole process, Belgian political practice was to play a role in brokering European compromises and furthering consensus. A prime example was the idea of the divergence indicator, during the preparations for the EMS. While the Belgian representatives also defended specific Belgian interests, like the qualification of Belgium for EMU, they took great care to further and stimulate European monetary integration through both pragmatic and creative proposals and ideas. In this way Belgium played a pace-setting

Table 1: Belgium, the Netherlands and EMU, Based on Wallace Typology

	Belgium (Pace-setter)	*The Netherlands (Gate-keeper)*
1. Political weight	Small/medium population EC founding member	Small/medium population EC founding member
2. Political practice	Benelux experience Consensus-seeking (F, D, CEC)	Benelux experience Gate-keeping (consensus-seeking between D and UK)
3. Economic weight	Small/medium GDP	Small/medium GDP
4. Social and economic practice	Stable exchange rate policy (problems in the early 1980s)	Hard currency peg to the DM
5. Persuasive ideas	Monetarist Symmetric EMU Scope for different speeds	Economist EMU based on German model
6. Compelling demands	EMU on the agenda	Stability-oriented EMU
7. Credibility and consistency	Consistent pace-setter	Consistent gate-keeper

role in the European monetary integration process. It contributed, together with the other partners, to making EMU a truly multilateral achievement.

The Dutch political practice, by contrast, though close to the policies and objectives of Germany, did not merely speak for that country, or only advocated German objectives. Rather they were keen to promote their view and wanted to support the German policies because they believed in them. The Dutch played the role of gate-keeper. In the 1970s and 1980s they had a more restrictive view of the conditions under which EMU was possible. Likewise, once EMU was accepted they were firm on the interpretation of the criteria for entry, which can be seen in their sceptical attitude to the inclusion of countries such as Italy in the third stage of EMU. The Dutch were also in favour of ensuring that EMU would be constructed within a broad framework of stability and embedded in proper economic and monetary convergence in policy objectives and outcomes.

Summarizing, using Wallace's framework one can identify the sources of Belgian and Dutch influence on the EMU process (political, social and economic practice, persuasive ideas, compelling demands and credibility and consistency). We went a step further by trying to characterize exactly how these roles were played.

Conclusion

Belgium and the Netherlands both played a significant role in the EMU process. Through their early economic co-operation, their creative proposals, and diplomatic efforts, they played an active role in the process of European monetary integration. Their influence manifested itself, following the Wallace framework, through political, social and economic practice, persuasive ideas, compelling demands, and credibility and consistency. Interestingly, however, these countries did not always follow the same line. Belgium played a 'pace-setting role', especially through creative and diplomatic proposals, whilst the Netherlands played the role of 'gate-keeper' and important ally of the Germans.

This assessment does not challenge the decisive impact of the Franco–German axis on EMU, or that of the other large Member States, but it shows that small countries played their part. The existing view of the creation of EMU stresses that creating EMU served the interests of these larger Member States. Our analysis suggests that EMU was frequently pushed by Belgium and the Netherlands at a time when EMU was losing momentum. These countries were at the front of putting EMU on the agenda (Belgium) and, once on the agenda, a country such as the Netherlands helped another large country (Germany) to create an EMU more in line with its own principles. As such they were influential in shaping the terrain of the Maastricht negotiations. Without their contribution, economic and monetary integration in the EU would have been different.

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