

**IDEAS AND ELITES:
THE SOCIAL CONSTRUCTION OF
ECONOMIC AND MONETARY UNION**

Martin Marcussen

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Contents

LIST OF FIGURES AND TABLES	IX
ACKNOWLEDGEMENTS	XI
1. INTRODUCTION	1
THE DYNAMICS AND POWER OF CAUSAL IDEAS	4
<i>Social Constructivism</i>	5
<i>Causal Ideas</i>	11
<i>The Ideational Life-cycle</i>	13
Old Ideas Die Away	13
New Ideas are Promoted	17
Ideas are Institutionalized for the Future	20
<i>The Power of Ideas</i>	23
CONCLUSION	26
<i>Structure of the Book</i>	27
2. GERMANY, THE EMS AND EUROPEAN CENTRAL BANKERS - HOW AN IDEA GOT A LIFE OF ITS OWN	31
REGIME SHIFTS - HOW TO UNDERSTAND THEM?	31
MACDOUGALL VERSUS MCCRACKEN	37
GERMANY AS IDEATIONAL MODEL	40
<i>What is there to Emulate?</i>	41
<i>Ideational Modeling in Discourse and Policy-making</i>	49
CENTRAL BANKERS AS IDEATIONAL LEADERS	56
<i>The Institutional Context of Central Bankers</i>	56
<i>Erik Hoffmeyer as Ideational Entrepreneur</i>	61
<i>British Central Banking and Ideational Diffusion</i>	75
THE EMS AND IDEATIONAL SOCIALIZATION	77
<i>Teaching Denmark and France the 'Rules of the Game'</i>	77
<i>The EMS as a Negotiated Order</i>	80
<i>Modes of Socialization within the EMS</i>	83
External Inducement	84
Internal Reconstruction	86
Normative Persuasion	88
CONCLUSIONS	94

3. EMU AS INSTITUTIONALIZED IDEAS.....	97
CENTRAL BANKERS ARE MORE THAN IDEATIONAL ENTREPRENEURS.....	98
<i>Central Bankers as Targets for Ideas</i>	99
<i>Central Bankers as Inventors of Ideas</i>	101
INSTITUTIONALIZING IDEAS WITH ECONOMIC AND MONETARY UNION.....	103
<i>EMU and Causal Ideas</i>	104
<i>Three Groups of Mutually Constituting Actors</i>	107
<i>Delors and his Three Pillar Strategy</i>	109
<i>Central Bankers</i>	116
<i>European State Leaders</i>	120
France.....	120
Germany.....	122
Great Britain.....	130
CONCLUSIONS.....	139
4. TRACING EMU-IDEAS IN ELITE DISCOURSE.....	145
THE MEMORY OF IDEATIONAL CHANGE AT THE ELITE LEVEL.....	145
<i>Central Bankers on 'Ideas'</i>	146
<i>Ministries on 'Ideas'</i>	152
<i>Private Banks on 'Ideas'</i>	156
<i>Social Partners on 'Ideas'</i>	157
PRIME MINISTERS.....	163
<i>The Ideational Core</i>	163
<i>From Baunsgaard to Krag/Jørgensen</i>	167
<i>From Jørgensen to Schlüter</i>	170
<i>From Schlüter to Nyrup Rasmussen</i>	175
AN INTERNATIONAL SPECIALIZED ORGANIZATION: THE OECD.....	184
<i>1970-1974: A Period of Consensus</i>	185
<i>1975: A State of Confusion and Contradiction</i>	186
<i>1976-1982: A Period of Increasing Frustration and Ideational Change</i>	187
<i>1983-1992: A Period of Support</i>	190
<i>1993-1997: A Period of Warning, Surprise and Support</i>	192
A KNOWLEDGE-BASED COMMUNITY: THE 'WISE MEN' IN THE DANISH	
ECONOMIC COUNCIL.....	199
<i>The Ideational Core</i>	201
<i>Conflict and Appeasement between the Council and the Wise Men -</i>	
<i>Consensus until 1978</i>	202
<i>Conflicts within the DEC Culminating in 1982</i>	205
<i>Towards an Ideational Consensus at the End of the 80s</i>	209
<i>The Wise Men and the EMU</i>	215
CONCLUSIONS.....	222

5. IDEATIONAL PRESSURE AND THE REFORM OF DOMESTIC STRUCTURES IN FRANCE, GREAT BRITAIN AND SWEDEN	227
THE IDEA OF CENTRAL BANK INDEPENDENCE.....	231
THE NATIONAL CONTEXTS OF CENTRAL BANK DEBATES.....	236
ADAPTATION OF DOMESTIC POLITICAL STRUCTURES AND DISCOURSE.....	243
<i>French Reform Debates in 1993</i>	243
<i>French Reform Debates in 1998</i>	250
<i>British Reform Debates in 1993</i>	253
<i>British Reform Debates in 1997</i>	258
<i>Swedish Reform Debates in 1993</i>	263
<i>Swedish Reform Debates in 1997/98</i>	266
CONCLUSION: THE POWER OF IDEAS	271
6. CONCLUSIONS - THE DYNAMICS AND POWER OF EMU IDEAS ..	273
THE DYNAMICS OF EMU IDEAS.....	275
THE POWER OF EMU IDEAS.....	281
CONCLUSION	286
REFERENCES	289
NAME INDEX.....	309

List of Figures and Tables

Figures

FIGURE 1.1 THE IDEATIONAL LIFE-CYCLE.....	23
FIGURE 2.1 THE BUNDESBANK'S APPROACH TO BALANCING THE OBJECTIVES OF EXTERNAL AND INTERNAL STABILITY	48
FIGURE 3.1 THE VARIOUS ROLES OF CENTRAL BANKERS IN THE IDEATIONAL LIFE- CYCLE	102
FIGURE 4.1 IDEATIONAL CORE AND IDEATIONAL CHANGE - PRIME MINISTERS.	183
FIGURE 4.2 OECD COUNTRY STUDIES: IDEATIONAL CORE AND IDEATIONAL CHANGE	196
FIGURE 4.3 IDEATIONAL DEVELOPMENTS IN THE DANISH ECONOMIC COUNCIL	219

Tables

TABLE 2.1 GERMAN ECONOMIC POLICY AND ITS POLITICAL ADVOCATES FROM 1966 UNTIL 1982.....	46
TABLE 2.2 ASPECTS OF THE GERMAN MODEL IN THREE NEIGHBORING COUNTRIES	54
TABLE 2.3 TRADE UNIONS' CONTACTS WITH CENTRAL PUBLIC AUTHORITIES....	68
TABLE 3.1 MONETARY EXPERIENCES	138
TABLE 3.2 EUROPEAN VISIONS	139
TABLE 3.3 TWO-LEVEL GAME DYNAMICS	139
TABLE 4.1 IDEATIONAL DEVELOPMENTS.....	181
TABLE 4.2 OECD COUNTRY STUDIES: IDEATIONAL CORE AND IDEATIONAL CHANGE	196
TABLE 4.3 WISE MEN IN THE DEC, 1976-89	223
TABLE 5.1 CONSTRAINING AND FACILITATING INSTITUTIONS FOR IDEATIONAL PRESSURE.....	243
TABLE 5.2 COMMON LINES OF ARGUMENT IN TWO CONSECUTIVE DEBATES ON CENTRAL BANK INDEPENDENCE IN FRANCE.....	253
TABLE 5.3 COMMON LINES OF ARGUMENT IN TWO CONSECUTIVE DEBATES ON CENTRAL BANK INDEPENDENCE IN GREAT BRITAIN	263
TABLE 5.4 COMMON LINES OF ARGUMENT IN TWO CONSECUTIVE DEBATES ON CENTRAL BANK INDEPENDENCE IN SWEDEN	270

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CHAPTER 1

Introduction

'But all genuine scientific progress comes up against the tyranny of the dominant ideas generated by the 'establishment'. The more such ideas are taken for granted, the more they become rooted in the psychology of men, and the more difficult it becomes to gain acceptance for a new conception, no matter how fruitful it may turn out to be'

(Maurice Allais, December 1988: 8).

'... the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else'

(John Maynard Keynes, 1936: 383).

Some economists have, in Thomas Kuhn's (1962: 145) words, been so young or so new to a crisis-ridden field that long-standing practice has committed them less deeply than most of their contemporaries to the world-view and rules determined by the reigning paradigm. Both Nobel Laureate Maurice Allais and John Maynard Keynes have apparently felt the extraordinary power which established common sense within the field of macro-economic policy-making has exerted upon dissident thinkers, who publicly dared to question the knowledge so consensually shared by elite decision-makers.

However, their personal experience of powerlessness and expulsion from the inner circles - John Maynard Keynes in the interwar period and Maurice Allais in the 60s - was greatly offset by the power that their respective ideas obtained years later - Keynes in the post-war period and Allais during the 80s. Suddenly things were turned upside-down: the reigning discourse changed, roles were redefined and new 'in' and 'out-groups' were formed among macro-economic elites in Europe.

The objective of the present book is to study the European Economic and Monetary Union (EMU) in the light of the ideational developments which both Maurice Allais and John Maynard Keynes experienced in their lifetimes. It asks, firstly, why is it that by the end of the 80s there seemed to exist complete consensus about such politically contentious issues as central bank independence, low inflation, stable currencies and low public deficits? It sets out to investigate why the main EMU negotiators apparently did not disagree about these crucial and highly central issues in macro-economic policy-making and consequently agreed to institutionalize these ideas in the formal organizations, rules and procedures of the EMU.

Secondly, the book attempts to investigate why it is that EU member states, once the treaty on EMU was formally ratified, have been ready to undertake reforms of their domestic structures which just a few years earlier were considered as completely illegitimate? In other words, it wants to explore how the EMU influences our understanding of what it is appropriate and legitimate to do and say in macro-economic policy-making.

The first puzzle relates to what will be called the 'dynamics of ideas' - how do ideas about macro-economic management develop over time, where do they come from, how are they diffused, and where do they go? The second puzzle relates to what can be called the 'power of ideas' - how do certain ideas about macro-economic management become powerful and how do these ideas affect our understanding of economic reality? Never before in Europe's post-war history have so many European policy-makers agreed to do so many things in order to achieve the same objective. It seems that the governance principles represented by the EMU have become consensually adopted as constituting legitimate knowledge about how to prioritize macro-economic *objectives*. It furthermore seems that a consensus has been reached as to which *instruments* policy-makers can legitimately apply in order to achieve these macro-economic objectives.

Of course, not everybody takes part in this societal consensus about how to organize the national and European economies. Europe-wide surveys have shown now and again that the *broad public* either does not understand the argumentation which drives policy-makers to reform their national economies and/or is hesitant to accept the rationale underlying European monetary integration. However, for quite some time now a consensus has been established at the *elite level* within the European macro-economic organizational field with regard to a very precise understanding about the functioning of national macro-economies, and - with the EMU - this consensus seems to have been consolidated despite broad public skepticism. This book therefore aspires to discuss the 'power of ideas'; how do reigning ideas affect us? Do they serve to constitute our social identity and therefore also the way in which we perceive our preferences and interests? Do they serve as codes of appropriate behavior, which are taken for granted and are completely uncontroversial? Or are they simply applied strategically by powerful elites to include or exclude other elites in the policy-making process?

Recent analyses of the EMU tend to be *descriptive-historical* rather than *theoretical* (see for instance Dyson, 1994; Dyson & Featherstone, 1999; Overturf, 1997; Ungerer, 1997) as well as focused on the *economic aspects* of monetary integration rather than the *political and sociological dynamics* (see for instance Apel, 1998; Begg et al. 1997; De Grauwe, 1997; Gros and Thygesen, 1998). Similarly, if an attempt has been made to analyze the political aspects of monetary integration within a thorough theoretical framework, then the focus is mainly directed at the *European Monetary System* rather than at the *EMU* (see McNamara, 1998; Oatley, 1997). Some edited volumes which focus directly on the political aspects of EMU do indeed contribute to analyzing some of the important themes

which are at the margins of the present EMU debate, such as nation-state identity, social marginalization and political accountability (Minkkinnen & Patomäki, 1997). However, these volumes tend to lack a *clear theoretical thrust*, which guides the individual contributions. If there indeed is an attempt to follow a guiding line in these edited volumes about the EMU, then there is a tendency to focus only on a *single aspect of the dynamic relationship between EU member states and the EMU* - for instance, small states' economic adaptation to the EMU process (Jones et al., 1998). Finally, most studies aspiring to explain why there is an EMU take the ideational content of the EMU as a given (Mazzucelli, 1997; Moravcsik, 1998b). The question about why the EMU looks the way it does when it comes to its ideational structure and logic is therefore rarely, if ever, asked. In other words, we do not know why we have this type of EMU and not another.

History shows us that there are no two similar monetary unions - this also goes for the many attempts which have been made within the framework of European monetary integration. The rationales behind their construction, their priority of macro-economic objectives, their institutional set-ups and the range of macro-economic instruments considered for monetary governance all differ. The present EMU is unique, and its ideational set-up deserves to be considered directly. As a consequence, this book does not attempt to explain European monetary integration as such, but rather attempts to theorize about the historical constellation of social forces which it can be seen to reflect. In this book I will argue that the EMU can be seen as the very last step of an *ideational life-cycle*.

The ideational life-cycle will help us to understand how ideas develop over time. For instance, why is it that old reigning ideas at some point stop being consensually shared as legitimate knowledge? Is this an incremental process or the result of some kind of shock? Why is it that some ideas rather than others become powerful in discourse and policy-making? Which mechanisms are decisive for the way certain ideas carry the day while others fall along the wayside? Why and how do some ideas end up as being firmly consolidated in formal rules, procedures and organizations as a result of which they become very hard to challenge? And finally, how do ideas affect us once they have become institutionalized? This book will try to answer these questions by investigating how a set of specific causal ideas are making their way within the European macro-economic organizational field.

In short, at the most general level this book aspires to study the EMU with an approach where both the 'power of ideas' (what effect do ideas have on us?) and the 'dynamics of ideas' (where do ideas come from and where do they go?) form the core concerns. The main purpose is to understand how a narrow set of macro-economic governance principles came to be so firmly established as legitimate reference points at the elite-level in Europe. It is argued that the EMU can be seen as the institutionalization of a specific set of causal ideas and that in order to understand why the EMU is the way it is, the process in which the EMU has been *actively constructed through social processes* must be analyzed. Thus, the EMU period is seen as a late stage in a longer process which began in the years between