The European Politics of Economic and Monetary Union: Developments in Germany, France, Italy and Spain

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This is one of two Library Papers updating earlier ones on economic and monetary union. This Paper considers how measures to implement the economic criteria for EMU have affected political developments in other EU Member States, with particular reference to Germany. It also looks at recent public opinion polls on EMU. A future paper will look at the economic aspects of EMU in the United Kingdom.

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I Introduction

The conditions and timetable for economic and monetary union (EMU), including the British opt-out arrangements, were agreed at the Intergovernmental Conference at Maastricht in 1992 and enshrined in the Treaty on European Union (TEU) which came into force in November 1993.[1] 1997 is a critical year in the timetable for determining which countries will qualify for the move to the third stage of EMU, the single currency, and for this reason there has been much speculation about as well as more informed commentary on prospects for EMU in the Member States. EMU is a political process as well as an economic one and has polarised political parties, their memberships and EU electorates. This paper looks at some of the political arguments and developments in the four largest Member States apart from Britain: Germany, France, Italy and Spain. The situation in Britain with regard to EMU will be discussed in a forthcoming Library Paper on economic and monetary union.

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[1] Special arrangements providing an EMU opt-out for Denmark also had to be agreed before the Treaty could be ratified, following a negative referendum vote in June 1992.

II Germany

A. Party Views: Introduction

Both government and opposition leaders in Germany began the new year by endorsing EMU and any strict budgetary measures that might be necessary to allow Germany to participate. In separate new year statements both Chancellor Kohl and the SPD chairman Oskar Lafontaine upheld the importance of a single currency, the convergence criteria and the timetable. Mr Kohl said that only EMU would allow the single market to "be able to develop fully its positive effects for growth and jobs".[2] Mr Lafontaine wrote in an article in the *Handelsblatt* that EMU was a "historic chance to advance the political union of Europe"[3], a view shared by leading figures in industry and the trade unions though not by any means universal.

1. CDU/CSU

Since 1982 Germany has been ruled by a coalition of Christian Democrats, the Christian Social Union (its Bavarian sister-party) and Free Democrats. In elections in 1994 the CDU/CSU/FDP coalition won for the fourth successive term and the next election is due in October 1998.

Stringent economic measures taken in order to qualify for EMU have strained the CDU/CSU/FDP government coalition. In a budget debate in October 1996 the opposition SPD accused the finance minister Mr Waigel (CSU) of lying and deceiving the public over the budget. Both the German public and politicians agree, however, about not wanting to continue as the paymasters of the EU. The foreign minister Klaus Kinkel (FDP) joined Theo Waigel and Oskar Lafontaine in maintaining that the German contribution to the EU under the present system was disproportionately high and had to be lowered.[4] It has been reported that Theo Waigel wanted payments to the EU budget be taken into account in deciding which countries qualify for EMU. This would mean that Germany's net credit to the EU of around DM21 billion would be used to assess whether the budget deficit was within the 3 per cent limit.

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2 *European*, 2 January 1997.
3 *ibid*.
4 *Frankfurter Allgemeine Zeitung*, 22 July 1996.

Early in the new year the CSU Bavarian leader Edmund Stoiber suggested that if Germany did not meet the convergence criteria the whole EMU timetable would have to be postponed. Few outside Germany had floated this possibility, since the idea of a single currency without German participation was almost unthinkable. However, at an meeting of the EU Economic and Finance Council (ECOFIN) on 17 February 1997 there were real fears that Germany might not qualify, in spite of the insistence by Jürgen Stark of the economics ministry that the unemployment surge which had precipitated the crisis was due largely to seasonal factors and that Germany would meet the criteria.

Karl Lamers, the Chancellor's influential foreign policy adviser and author of certain policy initiatives which the British Government have found controversial,[5] expressed the fear that German qualms over EMU "reflect deep concern that the political consensus on Europe could falter. A dispute in Germany, it is feared, would shock other Europeans, arousing suspicions of renascent German nationalism".[6]

At the beginning of March Herbert Hax, the head of the government's economics council of five wise men, called for a postponement of EMU, telling the *Bild am Sonntag*[7] that if the stability criteria are to be taken seriously, Germany would probably not be ready to introduce the euro in 1999. He suggested either a rapid easing of the criteria or a postponement, and regretted that the latter had become something of a taboo since stability was of more importance than the actual date of implementation.[8]

2. FDP

The economics minister, Günther Rexrodt, predicted in January that the record unemployment level that forced Germany to raise its deficit forecast for 1997 would ease in the spring, allowing Germany to qualify for EMU. He described his labour market predictions as conservative and conditional upon sustained and faster economic growth. The FDP economics spokesman in the Bundestag, Otto von Lambsdorff, was less optimistic, however, saying that he saw "little chance of economic growth translating into jobs". The official target of halving unemployment and creating two million jobs by the year 2000 was in his opinion "an illusion".[9]

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5 Policy papers on flexibility, the "hard core" and the pace of integration in the EU, for example.

6 *Economist*, 25 January 1997.

7 9 March 1997.

8 *Financial Times;Guardian; Independent*, 10 March 1997.

9 *Times*, 29 January 1997.

3. SPD

The SPD has had an uneasy and at times ambiguous relationship with EMU, siding on the one hand with a sceptical view that it should be postponed until it is definitely advantageous for Germany, and on the other with the government's view that it is both desirable and should be implemented according to the TEU timetable. In December 1996 Günther Verheugen, the SPD's foreign policy spokesman, told the Bundestag that the SPD would not make EMU an election issue with which to attack the government, but would support the government on EMU, although it would take a different approach towards interpreting the convergence criteria and adopt a somewhat less stringent view on their fulfilment. Oskar Lafontaine endorsed the Chancellor's description of the euro as an important building block in creating the "European House" and warned that a delay in implementation would cause a crisis in the Union.[10]

Dissent over EMU has come from the SPD prime minister of Lower Saxony and one-time rival of Oskar Lafontaine for the SPD leadership, Gerhard Schröder. Whereas the Christian Democrat/Liberal coalition controls the Bundestag or Lower House, the SPD has a majority in the Bundesrat or Upper House, in which regional leaders such as Mr Schröder sit. He has been critical of a "slave-like adherence to timetables" in pursuit of the euro, which could, in his opinion, be introduced at a later date. In Mr Schröder's opinion:

> People are afraid. More than anywhere else in Europe the German currency has a symbolic significance for people. It is part of their identity. For west Germans it represents a new beginning after fascism. For east Germans it symbolises freedom and prosperity. It is not surprising that people are reluctant to give it up.[11]

Although many politicians are critical of Schröder's "crisis talk", the rise in Germany's unemployment rate to over four million by February has given rise to fears about the imposition of yet more economic and fiscal burdens. Schröder, according to a report in the *European*, "envisages serious problems of legitimacy if the single currency is seen to have been imposed on an unwilling electorate and does not rule out the issue being taken up by extremists".[12] In his view there is no reason why the SPD should decide in favour of EMU immediately, and that its decision as to whether or not to support it should be made dependent on developments.[13] Mr Schröder warned that EMU could mean increased German contributions to EU regional funds to help weaker euro-zone members and accused Chancellor Kohl of stifling debate on the implications of the single currency. In an interview published in *Der Spiegel* on 24 February Mr Schröder made a strong commitment to delaying a single currency until after 1999.

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[10] *Handelsblatt*, 31 December 1996; *Financial Times*, 31 December 1996.

[11] *European*, 6 February 1997.

[12] 6 February 1997.

[13] *Financial Times*, 30 December 1997, quoting interview in *Focus*, 30 December 1997.

There is no SPD consensus on Schröder's views. Günther Verheugen told the Bundestag that the SPD would uphold the coalition's support for EMU in the 1998 election campaign while other leading SPD politicians have distanced themselves from their leader's sceptical position on EMU.

Oskar Lafontaine will probably stand for the chancellorship, although he will face competition from his rival Gerhard Schröder, whose outspoken opposition to the EMU timetable has increased his popularity. The SPD will put forward a nomination for chancellorship based on a decision of the Party conference, the executive and membership. The next party conference is in December, at which the party will decide who to back. It is not clear whether Schröder has enough support within the SPD to persuade it to put him forward against Kohl in 1998.

B. Effect on the Government Coalition and Chancellor Kohl's Leadership

Chancellor Kohl could be described as a passionate believer in European integration. His determination to anchor Germany at the heart of an integrated Europe in order to prevent the excesses of the past have sometimes puzzled some Member States and caused suspicion in others. Does Germany really want a European Germany or a German Europe? In an address in February 1996 the Chancellor said that "the policy of European integration is in reality a question of war and peace in the 21st century".[14] Chancellor Kohl has emphasised on numerous occasions that Germany is prepared to yield sovereignty and is committed to making political integration in Europe "irreversible". He would like majority voting to be the norm in Council of Ministers decision-making and but would not seek to increase the German share of the weighted votes in the Council in spite of its large population. Echoing his earlier Louvain speech, the Chancellor has said that integration was and remained the "effective insurance" against nationalism and war.[15]

Foreign minister Klaus Kinkel has continued to insist that the TEU terms will be strictly applied and that the euro will be launched on schedule with Germany participating. Speculators were blamed for spreading rumours about a delay in implementing EMU which caused turbulence on the financial markets. Mr Kinkel maintained:

> Opponents of the euro are continuing with their irresponsible actions. Whoever is spreading this king of speculation is deliberately counting on turbulence on the financial markets and unsettling the citizens of Europe.[16]

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[14] Address on receiving an honorary doctorate from the University of Louvain, 2 February 1996.

[15] *Financial Times*, 13 December 1996.

[16] *Times*, 3 March 1996.

Mr Kohl's commitment to EMU is equally strong and German failure to meet the criteria could give rise to a serious collapse of confidence and possibly provoking financial and political crises in the rest of the Union. The EMU process could unravel, with suspicion and hostility on all sides, something which the Chancellor is anxious to avoid in the run-up to the October 1998 election.

Unemployment and the faltering economy have also had a serious effect on the election prospects for the apparently invincible Chancellor, should he decide to stand for a fifth term in office. There has also been speculation that, although Mr Kohl's position is far from untenable, if he fails to patch up differences in the ruling coalition and with the SPD over proposals to restructure tax and pensions, he might be forced to resign. A survey in *Die Woche* on 6 February indicated that 55 per cent of Germans wanted him to retire, with only 36 per cent in favour of him standing for re-election next year.

The fall in the popularity of the Chancellor and his coalition has been attributed above all to the rise in unemployment and economic austerity measures. The German Finance Ministry warned in 1996 that unemployment could reach 11%, or over four million, a view confirmed by independent analysts. An economic forecast published by the German Institute for Economic Research (DIW) blamed the situation in eastern Germany for the present economic crisis and predicted that Germany would not qualify for EMU in 1997. This view was supported by the German Trades Union Federation (DGB), which predicted a jobless total of 4.6 million in 1997.[17] This prediction underestimated the situation as Germany's unadjusted jobless total had reached 4.66 million by the beginning of February 1997, the highest unemployment level since the 1930s.[18]

As the number of unemployed increased by 13,600 in February, reaching a total of 4.67 million or 12.2% in government figures published on 6 March,[19] commentators predicted that German qualification for EMU looked increasingly unlikely. The German trade union movement withdrew its former support for EMU unless the government adhered to binding commitments to job-creation as enshrined in the TEU.

The cause of the rise in unemployment has been the subject of many analyses. One interpretation of the problem with distinctly political implications is that the successful west German employment model of an apprenticeship system leading on to a first job has not worked so well in the east. The result has been much higher unemployment, social unrest and an increase in extreme right-wing, xenophobic movements in this part of the country. The

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17 *European*, 9 January 1997.

18 According to the *Economist,* 15 February 1997, this figure needs qualification since "Normal seasonal adjustment brings the monthly rise down ... ; Germany has had an unusually cold winter; other special factors including a change in tax allowances, may also have helped to inflate the total".

19 *Frankfurter Allgemeine Zeitung*, 7 March 1997.

economics editor of *The European*, Thierry Naudin, suggested that the basic flaw was that too few west German companies had moved to the east:

> Without the accompaniment of enough companies, technology transfer and serious vocational training cannot work, and banks will not lend because applicants for finance have neither reputation nor security.[20]

There is some truth in the criticism that Mr Kohl has tended to give political answers to essentially economic questions, first with German unification and now with EMU. His predictions that he will halve unemployment by the year 2000 are not generally believed by the electorate or upheld by economists. His assurances that Germany will meet the Maastricht criteria according to the present timetable are increasingly regarded by the German public as another of his "political fantasies".[21] Economic difficulties invariably cause social and political consequences, and it is possible that higher unemployment and further economic reforms might give rise to an increase in demonstrations and actions against foreigners who are frequently seen as the takers of "German" jobs. The recent miners' strike in protest against job losses, mine closures and government plans to cut coal subsidies further weakened the Chancellor's public standing and also cost him cross-party support from the SPD for a range of tax reforms.

The October 1998 election campaign is likely to be affected, even if it is not dominated, by the EMU debate, although all the important decisions should have been taken by mid-1998.[22] President Roman Herzog, who rarely voices a political opinion, has entered the debate by warning the country against making EMU an electoral issue "for fear it would cause dangerous divisions".[23]

The Chancellor has warned the opposition and dissenters within the government alliance against making political capital out of the EMU issue. According to *The Times*, his campaign "represents a bold attempt to reassert his crumbling personal and political authority".[24] It is likely, however, that as unemployment increases politicians will see that votes are to be gained by attacking EMU as one of the major causes of the current economic situation.

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20 *European*, 13 February 1997.

21 *Daily Telegraph*, 20 February 1997.

22 For the EMU timetable to be changed, an Intergovernmental Conference would need to be convened in order to amend the requirements set out in the TEU.

23 *Economist*, 25 January 1997.

24 12 February 1997.

The most recent assessment of party support published in the *Frankfurter Allgemeine Zeitung* on 12 March, gave the following figures for the whole of Germany, and separately for the western and eastern parts:

Party	**Germany**	**West only**	**East only**
CDU/CSU	34.3%	36.2%	26.4%
SPD	36.3%	36.8%	34.5%
Bündnis 90/Greens	12.2%	12.6%	10.4%
FDP	7.6%	8.4%	4.1%
PDS	5.2%	1.2%	22.0%
Republikaner	3.2%	3.4%	2.3%

C. A Successor to Chancellor Kohl?

The *Financial Times* commented on 7 March:

> Chancellor Kohl's refusal to declare his candidacy for next year's election has done nothing to quell speculation about his intentions should a delay to Emu become inevitable. Such a retreat would be a wrenching defeat for the man who unified Germany and is looking to his place in history.

The Chancellor is unlikely to press ahead with EMU at any cost, however, since giving up the Deutschmark for an unstable euro would be very damaging for the CDU in the eyes of German voters, which would be "a price even Mr Kohl is not prepared to pay".[25]

If Mr Kohl decides not to stand for another term next year, the question remains as to who might succeed him as CDU leader and candidate for the chancellorship. The front runner is currently Wolfgang Schäuble, the CDU parliamentary leader.

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[25] *ibid.*

Of Wolfgang Schäuble, the *Economist*, stated:

> Although publicly as steadfast about the single currency as his boss, Schäuble has voiced more pragmatic thoughts in private and he just might welcome some respite from the constraints of the Maastricht fiscal criteria to allow Germany and its neighbours more leeway in focusing on Europe's main economic problem - low growth and even lower job creation.[26]

The report also considered the character and suitability of Mr Schäuble for the chancellorship:

> If there is a vacancy, Schäuble is certainly the man for the job. With considerable reserves of intelligence, persistence and courage, he sits in a wheelchair after nearly being killed by a deranged gunman in 1990. He possesses an intellectual and emotional intensity lacking in Kohl, whose rambling mind seems incapable of grasping the problems that have descended on Germany since unification. Unlike Kohl, however, Schäuble has no firm party base, and a switch in leadership would require careful management; it could even be the first move towards a Grand Coalition between the Christian Democrats and the Social Democrats, possibly involving early new elections.
>
> Some doubt whether Schäuble would cope with the sheer physical demands of the chancellorship, but provided he took on the job with Kohl's blessing, and so received wide party support, the transition could be relatively smooth. At home he would be a persuasive advocate of change and in a world that still fears the exercise of German might, Schäuble would be a more ready symbol of his country's commitment to the politics of peace and co-operation than Kohl.

D. German Business and Banking Views on EMU

1. The Bundesbank

The Bundesbank has been vehemently against any softening of the Maastricht criteria for EMU. The head of the Bundesbank, Hans Tietmeyer, gave an interview for *Der Spiegel*,[27] expressing his own and the German government's position on prospects for monetary union. He made the following comments:

> I am in favour of a monetary union that focuses on stability. Anyone who says I am against EMU is wrong. I would like EMU to be a success. I am in favour of a monetary union that guarantees currency stability and is durable, not one that collapses after a certain period of time. That would be catastrophic for Europe. ....

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[26] 14 February 1997.

[27] 49/1996.

Both the upper and lower houses of parliament asked for a strict and narrow interpretation of the criteria when they ratified the Maastricht Treaty. The Federal Constitutional Court took this on board as reasoning for its judgement. That is also binding on me as President of the Bundesbank. What matters now is that the criteria are adhered to persistently. ...The important thing is that the participants in EMU get their budget deficits under control on a long-term basis.

But there should be no softening of the position. The Maastricht Treaty has become a gauge of the trust that the markets have in the solidity of this whole undertaking. And above all the people have to accept the Euro if it to be successful. ...

I think it is extremely problematic that in many countries the requisite adaptations to fiscal, social and structural policy are primarily, or even exclusively, being carried out in the name of monetary union. The reforms are necessary in order for many continental European countries to regain or maintain their competitiveness. ...

This time pressure is useful. But there is the danger that the necessary structural adaptations will not be made in time, that Europe will fall behind in global competitiveness and that unemployment will then rise again. Many people have still not understood that technological developments have fundamentally changed the world....

If the Euro itself is going to be a stable currency, this means that there is a chance that its external value will fluctuate less than that of the Mark. A soft Euro, on the other hand, would not be advantageous to the German economy. On the other hand, the economy has to become particularly adaptable within a monetary union. ...

But in order for it to function properly in Europe, the convergence between member states must be greater and more lasting than in a nation state where there are systems to even out regional differences. ...

I very much hope that both countries [France and Germany] will succeed in meeting the convergence criteria for early membership. But every European state recognises that there will be no monetary union without these two countries. ...

There appears to be little interest in other countries for a monetary union without Germany and if France wasn't a member, there would soon be suspicions that EMU was some kind of pan-Germanic union. ...

The Chancellor wants Germany to fulfil the conditions laid out in the Treaty. I support that objective. But the Chancellor also said that he doesn't want monetary union at any price. He doesn't want it at the price of instability. ...

It must be clear to everyone: monetary union is more than a technical process. It has a deep-reaching effect on the political sovereignty of its members. The most important thing about the stability pact is its preventative effect. It should deter member states from the outset from making shoddy policies. And sharp sanctions are more effective in ensuring this than softer ones.[28]

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[28] Translated by Fiona Watson.

The former Bundesbank president, Karl-Otto Pöhl, speaking at a conference in Paris on 15 January 1997, also expressed some doubt as to Germany's ability to cut its deficit in time to qualify for EMU. Furthermore, Germany was in a difficult situation diplomatically, having told its EU partners and the public that the Maastricht criteria should be applied very strictly. He also accused France of showing its "traditional distrust of financial markets" and predicted "a catastrophic flight of capital from Germany unless Mr Kohl's government halts the French".[29]

Another former member of the Bundesbank and former SPD member, Wilhelm Nölling, has warned the Chancellor that he will challenge the government at the Constitutional Court unless Bonn postpones entry into a single currency until the Member States, including Germany, are ready to meet the strict criteria.

2. The Private Banking Sector

At the beginning of February business leaders were reported as being doubtful about the deadline of January 1999 for the introduction of the single currency. A report in the *Financial Times*, 3 February 1997, quoted the managing director of Deutsche Bank, Ulrich Cartellieri, who said that only a very few businesses had begun to prepare for EMU and "even fewer have considered the strategy implications".[30] However, the *Financial Times* reported that savings banks throughout Germany were organising training programmes of courses, seminars and lectures to help staff to answer questions about EMU. "Training and advice is estimated to cost the savings bank movement around DM1bn (£375m) on the rough assumption that all customers will want 15 minutes of advice".[31] A new database is also being prepared to help savings bank staff keep customers informed in the run-up to EMU. The *Financial Times* later reported on a survey carried out by IBM which revealed that German companies were the best prepared for the single currency, followed by British and French companies. The survey showed a clear north-south divide in preparedness for EMU, with Italy and Spain lagging behind.[32]

In an article in the *Observer*, Mr Cartellieri praised the changes already brought about by the efforts of Member States to qualify for EMU:

> The prospect of EMU has already wrought enormous changes in Europe - historically low inflation rates, stable exchange rates between a growing number of core countries; serious efforts to rein in budget deficits and reform labour markets.

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[29] *Economist*, 25 January 1997.
[30] *Financial Times*, 3 February 1997.
[31] *Financial Times*, 14 January 1997.
[32] 11 February 1997.

> The beginning of EMU will have implications reaching far beyond finance, business and industry - and far beyond the imaginations of many.
>
> Not least, it will force changes in the way member governments conduct their economic and social policies.[33]

The German Banking Association has been sceptical about the chances of recovery. *The Times* commented:

> It sees two-and-a-half per cent economic growth as feasible, but doubts the Government will hit its 3 per cent Maastricht target without further cuts in public spending. This would depress demand and jeopardise its entire economic strategy.[34]

However, according to the Allensbach Opinion Research Institute, the oldest polling organisation in Germany, the number of businessmen and bankers who think that EMU will go ahead according to the Maastricht timetable has nearly doubled since 1996 to 71 per cent.[35]

According to a study by the Bayerische Vereinsbank published in February and reported in the *Financial Times*, the German economy could "reap considerable benefits from European monetary union but these will not outweigh the costs of preparing for the single currency until 2002".[36] The report puts the costs at DM26 billion for 1997, easing to DM10 bn in 1999, with benefits appearing in 2000. Without EMU Germany would still have to curb spending but the report is confident that "the economy will benefit after EMU as Germany and others refrain from excessive borrowing under the influence of the Maastricht criteria and the stability pact".

E. EMU and the German Constitution

Under the current TEU arrangements joining the single currency is not an option but an obligation for all Member States except for Britain and Denmark, providing the criteria are deemed to have been met. Joining EMU cannot be subject to referendums since provisions for it were agreed at Maastricht and enshrined in the TEU, which was ratified by all Member States "in accordance with their respective constitutional requirements".[37] However, opponents of the TEU in Germany led by Manfred Brunner, who initiated the Constitutional Court

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33 *Observer*, 9 February 1997.
34 29 January 1997.
35 *Daily Telegraph*, 12 February 1997.
36 18 February 1997.
37 Article N of TEU, Cm 3151.

challenge in 1992, might again ask the Court to rule on the constitutionality of the final move to EMU in the event of the criteria not being met.

It is unlikely but not impossible that Germany would hold a referendum on the move to the single currency, although approval of the move must first be sought in both the Bundestag and the Bundesrat, a condition secured by the German parliament at the time of ratification of the TEU. It is difficult to see how such a referendum could be anything but consultative, since EMU cannot be subject to further national decision-making procedures. During the TEU ratification process, when a referendum was demanded by opponents of the TEU, the Chancellor was opposed. This view was upheld by the Constitutional Court, in spite of Article 20 of the Basic Law which provides that:

> (2) All state authority emanates from the people. It shall be exercised by the people by means of elections and referendums and by specific legislative, executive and judicial bodies.
>
> (4) All Germans have the right to resist anybody attempting to do away with this constitutional order, should no other remedy be possible.

Article 20 was invoked by Manfred Brunner in his campaign against Maastricht and he was supported by constitutional experts such as Judge Professor Dieter Grimm, who said that a referendum would have been appropriate for a constitutional change of the magnitude envisaged by the new Treaty. He argued that "a strengthened European Parliament would not provide sufficient democratic control of the future unified Europe, because it could never be truly representative of the European peoples".[38] Whether legitimate constitutional objections could be raised in the case of EMU remains to be seen. The safeguards built into the Treaty timetable to prevent countries from moving ahead before they have met the required economic criteria would prevent objections being made on economic grounds. The Constitutional Court has already ruled that the Treaty as it stands does not contravene the Basic Law in the case of EMU. However, the resolutions of the two chambers of the German Parliament when giving assent to the ratification of Maastricht stated that the Government "shall resist any attempt to soften the criteria for stability which have been agreed in Maastricht" and must "respect" the appraisal of the Bundestag when it comes to voting on the transition to the third stage of EMU. If the entry criteria are altered or watered down in any way, there might be a cause for complaint under Article 20 of the Basic Law, although it is not clear exactly how strictly the word "resist" would be interpreted in this event.

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[38] *Times*, 18 May 1993.

There have already been calls for an internal referendum on EMU within the FDP, although there have not been any serious referendum initiatives from the CDU/CSU or the SPD. If the Chancellor or the Constitutional Court decided that a referendum on EMU was appropriate, and if this was binding on the federal government, it could, in the event of a no-vote, have potentially serious political repercussions for the final move to EMU. It would also contravene the Treaty in allowing a potential opt-out from EMU which only Denmark and the UK have legally secured. All other member states agreed to the timetable (including contingency provisions) and conditions of entry to EMU and these are set out in the Treaty. Unless these are changed at the current or at another Intergovernmental Conference, 13 member states out of the 15 will be legally bound to adhere to them.

III France

During 1996 the French government struggled to comply with the demands of the EMU convergence criteria by implementing a series of unpopular expenditure cuts and reforms. These met with resistance from the trade-union movement and there was a continuation of the strikes and demonstrations which had begun at the end of 1995. The protests culminated in a damaging truck-drivers' strike in December 1996 to which the government largely capitulated, raising the prospect of further action if additional measures were needed, with damaging effects on the economy.

There are divisions of opinion between those in the political, administrative and economic elites who believe that EMU is needed to contain Germany and provide a stable anchor for the French economy, and those in the trade unions and public sector who are critical, and who see the priority given to deficit-reduction as backtracking on election promises made 18 months earlier to reduce social inequalities. As in Germany unemployment has reached record levels in France in recent months, which has also fuelled social unrest and opposition to deficit-reduction strategies.

A. Government Views

Tough economic reforms imposed in the interests of qualifying for EMU have brought about a general public disillusionment with President Chirac and the Prime Minister Alain Juppé. In an article in the *New Statesman* Dominique Moisi writes:

> The present crisis preoccupying most of western Europe affects France more because it coincides with a crisis of the state and a concomitant crisis of the European ideal. France is suffering greater turmoil than most of its European partners because the state is so much bigger and more powerful, and because France has hitched its destiny firmly to that of the European project.[39]

Jacques Chirac and his government remain committed to joining the single currency in accordance with the timetable set out in the TEU, although this was put in some doubt at the beginning of January 1997 with the appointment to the influential Monetary Policy Council (CPM) of the Bank of France of two opponents of current French economic policies, Pierre Guillen and Jean-René Bernard, who have been associated with the well-known anti-Maastricht campaigner and President of the National Assembly, Philippe Séguin.

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[39] *New Statesman*, 13 December 1996. Dominique Moisi is deputy director of the International Foreign Relations Institute and editor-in-chief of *Politique étrangère*.

The Guardian commented:

> Mr Chirac has made so many U-turns in economic thinking since his election 20 months ago that there will inevitably be more confusion ever the latest twist, which follows a succession of meetings with the German Chancellor, Helmut Kohl, to give assurances that France is ready for sacrifices to keep on course for monetary union.[40]

On 12 February the economy and finance ministry revealed a budgetary shortfall of FF295.4 billion (£31.8 billion) against its initial objective of FF287.8 billion.[41] The finance minister Jean Arthuis was still optimistic that France would not miss the "European rendez-vous" of the single currency, and the budget minister Alain Lamassoure said that the government expected the overall deficit to reach 4.1 per cent of GDP in 1996, "marginally higher than targeted".[42] Mr Arthuis chairs a national committee for the euro composed of 60 MPs, employers, trade unions and consumer representatives to prepare for its introduction. Similar bodies have been set up in France's 95 Départements, chaired by local representatives of central government (préfets) and of the Finance Ministry (trésoriers généraux).

B. Other Political Views

The opposition Socialists, under Lionel Jospin, have reassessed their earlier commitment to EMU, welcoming it in principle, but only on condition that it is based on a wider membership than just a hard core dominated by Germany and France. Mr Jospin would like to see Spain, Italy and Britain included at the start and has not supported German proposals for strict penalties against participants running high deficits. Calling for a "Europe for jobs", the Socialists are no longer committed to the idea that EMU under the present Maastricht arrangements will work. In December Mr Jospin called for a European social contract with other parties in the Member States and trade unions to unite in ensuring that the euro was not over-valued against the dollar and that there is "some form of political involvement in the determination of economic policy".[43]

Philippe Séguin has made no secret of his opposition to EMU and many other aspects of the Maastricht Treaty, against which he campaigned forcefully in 1992. Even the former president Valéry Giscard-d'Estaing, an enthusiast for European integration and a founder of the European Monetary System, has expressed doubts about the present government's

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40 4 January 1997.

41 *Financial Times*, 13 February 1997.

42 *ibid*.

43 *Financial Times*, 16 December 1996.

economic policy, and the pegging of the Franc to the Deutschmark, which (ironically) have been welcomed by the anti-Maastricht lobby.

The far-right National Front party of Jean-Marie Le Pen has exploited the social unrest brought about by economic reforms to promote an anti-European and anti-EMU agenda.

C. Banking and Commercial Sectors

In December 1996 the Governor of the Bank of France, Jean-Claude Trichet, rejected calls for a depreciation of the French Franc following criticism that it was over-valued against the Deutschmark. Maintaining that the Franc was highly competitive, he contradicted claims from members of the Bank's monetary committee and politicians such as Mr Giscard-d'Estaing, and confirmed a stable Franc-Deutschmark exchange rate at a meeting with Chancellor Kohl. The Bank of France started preparations for the euro early on. At the beginning of 1995 it set up a euro working group with the Paris market authorities, bankers and credit institutions. From this a pilot committee was formed, chaired by the head of the international department of the Bank of France, Jean-Pierre Patat, and Pierre Simon of the Compagnie Bancaire and president of the French Association of Credit Institutions. Four sub-groups below this level are studying the legal implications of the move to the euro, the changes in central bank relations with commercial banks and the consequences for money and stock markets.

According to a report in the *Financial Times*, although the population may be divided on the merits of EMU, "the country's authorities and markets have shown a singleminded determination in their preparations".[44] Some French retailers have also started to prepare customers for the euro by pricing goods in both euros and Francs for short periods.

[44] 24 December 1996.

IV Recent Franco-German Proposals

France and Germany are key players in the EMU project as they have been traditionally in other areas of EU policy-making and action. A German delay in implementing EMU, even if it did not undermine the whole EMU project, could expose the French franc to speculation, with serious consequences for the geopolitical relationship between the two countries. This would be particularly unfortunate for France, which in the view of many economists, will find it easier to fulfil the criteria than Germany.

At a meeting in Nurnberg in December 1996 President Chirac failed to agree to German demands for a strict economic stability pact for EMU members, with fines for states which broke the rules. Germany wanted to give the European Central Bank (ECB), whose independence is guaranteed by the TEU, a powerful role akin to that of the Bundesbank, to which the French government objected. An intervention by the Prime Minister of Luxembourg, Jean-Claude Juncker, facilitated a compromise deal according to which a decision to impose sanctions on Member States would be made by the European Council rather than the ECB. Kohl and Waigel hoped that this would reassure the increasingly sceptical German public that the stability of the euro would be protected and that it would be as strong as the Deutschmark.

As a result of secret negotiations in 1996, French and German ministers had agreed in principle to set up a new political body called a "stability council" to govern the euro-zone. Like the EU's Economic and Finance Council (ECOFIN), the stability council would be composed of finance ministers from the states which join EMU who would agree among themselves at meetings prior to ECOFIN on enforcement of the rules and fines agreed under the stability pact. The future European Central Bank may be invited to stability council meetings, although it has not yet been decided whether the Commission will be invited. Germany resisted the French proposal for "economic government" for the euro-zone because it might threaten the independence of the future European Central Bank. At the World Economic Forum in Davos at the beginning of February Theo Waigel and Jean-Claude Trichet said that the stability council would coordinate economic policy inside the euro-zone as an informal body. It would operate outside Treaty mechanisms and with no formal decision-making powers, institutional structure or secretariat.

In an interview in mid-January Hans Tietmeyer appeared to be accusing the French government of undermining the independence of the future European Central Bank with its proposals for the stability council, an assertion which the foreign minister, Hervé de Charette, has denied. However, Mr Waigel and Mr Tietmeyer finally endorsed the proposal at a meeting in March with their French counterparts on condition that the new body would not "encroach upon the ECB's independent right to set monetary policy".[45] Alexandre Lamfalussy, the Belgian head of the European Monetary Institute (EMI) was against the French proposal, saying that there was no provision for such a body in the Treaty and that an EU council similar to ECOFIN would be the best way to promote national dialogue among the participating states and the ECB.

The British Chancellor has been wary of such agreements reached by the Franco-German alliance which point to the kind of "flexible" arrangements already set out by the two countries in their joint submissions to the IGC. The *Independent* reported that Britain would be excluded from influence in this council if it did not join EMU. The report continued:

> The council will be styled on the G7, the Group of Seven industrial nations, and will meet regularly to set strategy on exchange rates, employment and issues such as tax harmonisation. ...[46]

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[45] *Financial Times*, 13 March 1997.

[46] 3 February 1997.

V Italy

A. Government Views

In spite of German predictions that Italy will not be ready to join the single currency in the first wave, the Italian government has pressed ahead with a number of new taxes, including a euro-tax to be collected this spring, in an effort to qualify for the first wave of entrants. The Prime Minister Romano Prodi has conceded that Italy is unlikely to reduce its budget deficit from over 7 per cent to the 3 per cent of GDP required for EMU.[47]

Suggestions that Italy will not be in a position to join EMU in 1999 but could join ahead of the final phase in 2002 (when euro notes and coins are due to begin circulating) have been rejected by the Italian government. Some commentators believe it is doubtful whether the Prodi government would survive such a setback and that it might deepen the already widening gulf between the prosperous north of the country and the poorer south. Mr Prodi also relies on the Communists for his majority in parliament and they support more efficient taxation collection rather than the current reforms.

Mr Prodi has said that he will resign if Italy fails to qualify for EMU in the first wave. This would cause both economic and political uncertainty and would not improve Italy's chances of joining EMU. Rumours circulating in Brussels in early February that Italy would be excluded from EMU in 1999 led to volatile trading in lira in foreign exchange markets on the one hand, but boosted confidence in EMU going ahead on time in the stronger member states, on the other. The Italian government, furious at the "character assassination" by the media, appeared even more determined to achieve the Maastricht criteria.

Mr Prodi met Chancellor Kohl for bilateral talks in Bonn on 7 February and insisted that he would apply "iron discipline" in order to qualify for EMU.[48] There is speculation that the German reluctance to admit Italy in 1999 has more to do with German popular prejudice concerning the unstable and sometimes chaotic nature of Italian politics than real economic concerns. However, Germans also have a fondness for Italy, its culture, innovation and industrial successes, which combines uneasily with their fear of becoming partners in EMU.

On 12 February 1997 Mr Prodi told the Chamber of Deputies that Italy had adopted the "toughest and most appropriate" measures to ensure Italian entry into EMU, proof being the

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[47] *Daily Telegraph*, 3 February 1997.

[48] *Times*, 8 february 1997.

2.6 per cent inflation figure, the lowest for nearly 30 years.[49] In Frankfurt on 17 February the Italian Prime Minister said that he had expected more leadership from Bonn, accused Germany of lacking political commitment to EMU and claimed that Italy was making more effort than Germany to tackle its economic problems.[50]

The government promised to implement a mini-budget this spring in an attempt to meet its deficit targets for EMU, although politicians are cautious about its content. Italy's 1997 budget approved in December 1996 had included a Euro-tax, a one-off surcharge on income tax to raise extra revenue and keep the 1997 budget deficit down to the EMU target of 3 per cent of GDP. The treasury minister and former prime minister Carlo Ciampi has predicted a GDP growth of 1.1 - 1.5 per cent for 1997,[51] although the situation will not be clear until quarterly treasury figures are released in March. Meanwhile the December budget appears insufficient to meet TEU demands and treasury officials are looking for ways of saving some L15,000 billion (£5.5 bn) in public spending cuts and new revenue. One option includes a one-off tax on early retirement pensions to raise L3,000 billion; another is increased charges for health care.[52] Union leaders are against such measures and Fausto Bertinotti of the Reconstructed Communist Party, a key ally in Mr Prodi's governing coalition, has already said that he will oppose any new taxes and spending cuts.[53]

A politically unpopular alternative to a spring mini-budget would be for Mr Ciampi to bring forward the annual budget for 1988 to the summer. All these uncertainties will continue to have a damaging effect on confidence in the lira, which rejoined the Exchange Rate Mechanism in November 1996. The Euro-tax was approved by Eurostat, the EU Commission's statistical watchdog, on 21 February, infuriating the German government and Bundesbank, as well as British Eurosceptics, who fear that the EMU criteria are being softened to allow more Member States to participate, but Mr Prodi was critical of Germany for its attitude towards Italy, saying:

> Europe is not just about a currency, it is impossible to think of Europe cut off from its great Latin culture. ... German culture cannot represent by itself all of Europe.[54]

The foreign minister Lamberto Dini has been promoting greater European integration in a series of speeches in EU capitals. At an Anglo-Italian seminar in Venice he was critical of the British depiction of the European dilemma, particularly by the British press, as "a desire

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49 *Irish Times*, 13 February 1997.
50 *Times*, 18 February 1997.
51 *Financial Times*, 19 February 1997.
52 *ibid*.
53 *Financial Times*, 20 February 1997.
54 *Times*, 22 February 1997.

to cancel the national state, to create a super-state, a modern Leviathan".[55] He was convinced that "Not even the revision of the Maastricht Treaty will give rise to the United States of Europe".

B. Opposition Views

The right-wing Forza Italia opposition leader and former prime minister Silvio Berlusconi predicted in December 1996 that Italy would not meet the TEU criteria and the Prodi government would collapse in spring 1997. It is true that tension within the centre-left coalition increased in December after Italy re-entered the Exchange Rate Mechanism, and Mr Prodi threatened to resign if the 1997 budget did not succeed in allowing Italy to qualify for EMU, but Italy's position is perhaps no less tenable than others predicted to join EMU in 1999. Mr Berlusconi had for some time resisted pressure from the Party of the Democratic Left, the main coalition partner, to adopt a bipartisan approach on important issues. However, on 20 February he proposed a solidarity pact with the government to ensure that Italy does take part in EMU from the start.

C. Business Sector

Business leaders such as the current and former chairmen of Fiat have said that it would be better if Italy waited for a few years before joining EMU and concentrated on fundamental reforms concerning job creation, instead of the "cosmetic" ones it is now implementing.[56]

The Italian middle classes, including some five million small businessmen, are disturbed by the prospect of monetary union and the government's reforms to qualify for it. One opinion was that "Taxes go up, but the promised boom never arrives. Since 1992 1.2 million jobs have vanished and 200,000 firms have gone bust".[57] There were demonstrations by small businesses and shop keepers at the end of 1996 to protest against the government's euro-tax and budget reforms. Italian farmers have never accepted the EU fines imposed two years ago for exceeding milk quotas, and for several weeks they too have been demonstrating against Europe.

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55 *Guardian*, 10 March 1997.
56 *ibid*.
57 *ibid*.

VI Spain

A. Government Views

The Socialist government of Felipe Gonzalez was committed to EMU but elections on 3 March 1996 brought the conservative Partido Popular (PP), led by José-María Aznar, to power after 14 years of socialist government. The *Times* commented: "José-María Aznar is an embryonic Euro-sceptic in a land where the European Union is worshipped almost blindly".[58] The *Irish Times* commented on Spain's pro-Europeanism:

> Spain's new-found passion for Europe has its political and economic roots in a reaction against the isolation the country suffered under the Franco regime, which combined ideological hostility to democracy with economic protectionism and high tariffs.[59]

Europe meant "modernisation and liberalisation, in the economic, political, social and cultural fields".[60] Mr Aznar does not question the value of EU membership but believes that "the European project must be compatible with the respective national projects of member states". These "should not abandon their national interests in pursuit of an 'unreal European project'".[61] All three main political parties, the PP, the nationalists and the opposition PSOE, support Spain's entry to EMU in 1999. In opposition Mr Aznar indicated that he understood the British position on a single currency, but as Prime Minister he has distanced himself from the British view. He has also rejected Italian proposals for a common front for EMU entry.

In an interview in May 1996 the foreign minister Abel Matutes said that it would be reasonable if at the beginning of 1998 Spain was not among those countries qualifying for EMU "to stop the EMU clock in order to allow a few more countries to jump on the wagon".[62]

Jürgen Stark of the German finance ministry relegated Spain along with Italy to a later wave of EMU entrants in 2002, which was strongly contested by Mr Aznar at a meeting with Chancellor Kohl at the end of January. On 13 February 1997 the economy and finance minister Rodrigo Rato announced that Spain's inflation was 3.2 per cent in December 1996,

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58 4 March 1996.
59 17 March 1997.
60 *ibid.*
61 *ibid.*
62 *El País*, 6 May 1996.

falling below 3 per cent for the first time since the late 1960s, and that 1997 would be a crucial year with the economy "clearly on track" to qualify for EMU in 1999.[63]

B. Opposition Views

In private talks with Helmut Kohl and the former Commission president Jacques Delors on 13 February Felipe Gonzalez was confident that Spain would participate in the "operation and construction of the euro",[64] an achievement which would be largely due to the policies of his PSOE government but for which Mr Aznar will also claim credit. Mr Gonzalez said that the euro had not only a monetary value but also a social and political one. "If there is a euro which represents 200 or 300 million people, it will be a much stronger euro than if it represents half this number".[65]

C. Business and Trade unions

According to research by Coopers and Lybrand for *El País*[66] more than 240 companies in Madrid, Catalonia and the Basque country support EMU and want the government to introduce labour market reform (unemployment is twice the European average at around 21 per cent), reduce public spending and simplify the tax system. There have been protracted negotiations over labour reform in which unions and employers have tried, not entirely successfully, to reconcile differences over contract terms and the protection of workers.

At the end of 1996 two million civil servants including school and university teachers and court employees protested against the pay freeze announced as part of the austerity drive to meet EMU targets. They were supported by airport staff, employees at the state broadcasting network RTVE and the Bank of Spain. Their action coincided with similar demonstrations elsewhere in the EU, in particular by farmers in Greece and the IG Metall union in Germany.

The Spanish Banking Association (AEB) set up an EMU steering group in 1992 to help prepare for the changeover. The aims are set out in an AEB manual and include making customer accounts available in euros from the start of 1999, allowing for payments in pesetas in the transitional period and bank statements in both the euro and the peseta.

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63 *Financial Times*, 14 February 1997.
64 *El País*, 14 February 1997.
65 *ibid*.
66 2 March 1997.

The director of the Banco Central Hispano (BCH), Jorge Hay, is pessimistic about the costs involved in preparing for EMU. The BCH calculated the cost of converting to the euro based on the three-year transition period and six-month overlap period between the euro and national currencies. The calculation was that the Spanish banking system could lose annual business of around Pta 94 billion (£404 million) and that the adaptation costs would be around Pta 180 billion (£800 million).[67] As against this the BCH estimated that joining EMU would bring higher growth, a more popular currency and more integrated financial markets. The report continued:

> These benefits would include lower capital costs, increased demand for credit, and international demand for euro-denominated assets.
>
> A delay in Spanish entry ... would if anything raise the negative side of the equation.
>
> Banks would be able to keep current business in foreign exchange commissions "a little bit longer" but would lose other kinds of business, for instance with correspondent banks in Latin America.
>
> "If we don't come in at the beginning, these banks are likely to choose their partners within the euro zone" ...

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[67] *Financial Times*, 11 March 1997.

VII Prospects: moving the EMU goalposts?

Although there is no possibility under present Treaty arrangements for referendums on EMU in the member states other than in Britain and Denmark, it is clearly worrying to the promoters of economic integration that public opinion of the project is becoming increasingly sceptical. The difference between political and public perceptions in Denmark and France threatened to derail the Maastricht process in 1992, when referendums were held as part of the ratification process. It would be possible, though not desirable, to press ahead with EMU regardless of public opinion, provided the economic criteria had been met. The political and economic consequences of adhering to the EMU timetable by softening the criteria could be serious, although postponing the start date while maintaining the economic conditions might be a more palatable option.

There is a widely held view that government measures to comply with EMU criteria are responsible for all the Member States' economic problems, and that for this reason it might have to be postponed. In reality, postponement might come about simply because Germany, hitherto the strongest economic power in the Union, might not qualify. The German government, insistent that the criteria should be strictly adhered to ("3 per cent is 3 per cent" had been Theo Waigel's budget deficit slogan), now finds itself with no flexibility with regard to its own entry. As France, Italy and Spain have recovered economic ground in their reform programmes, Germany has been forced to concede that it might not be able to join in on the strict Treaty terms on which it insisted. The Bundestag vote as to whether or not Germany should proceed to the third stage of EMU,[68] based on the premise that the rest of the EU might not be in a position to join and that the euro would therefore be weaker than the Deutschmark, might turn out to be irrelevant.

"Fudging" the criteria in order for Germany, and others such as Spain and Italy, to join might not cause the whole project to fall, depending on the extent of the fudging, but it is not clear whether Member States would be able to sustain already harsh economic and fiscal measures even to meet somewhat softened targets. Postponement of the project, now being suggested by many economists in Germany and elsewhere, would have to conform to Treaty requirements if a complete revision of the TEU is to be avoided. This could be done because the Treaty allows for a degree of flexibility. Article 109.J.4 empowers the Council of Ministers to set the start date for the final stage of EMU if the launch has not already taken place by 1 January 1997. If the start date is not agreed in 1997 or 1998, then under this Article 1 January 1999 becomes the effective start date. It has been suggested that it would not be a contravention of treaty requirements for the Council to set a later start date still, although the legality of this would appear to be questionable. An alternative procedure has been proposed which would maintain the extended start date of 1 January 1999 but without allowing Member States to be admitted to EMU from the start:

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[68] See Section I.E.

> Although this may seem absurd, it would in fact be quite practical, and it would enable future members to join the non-existent monetary union at some point in the future, when convergence criteria had been achieved. Under this procedure, the precise start date for a meaningful EMU would not be fixed in advance, and nor would the initial members be determined until later. Countries would simply opt in to the EMU super-structure when they were able to do so.[69]

Such a scenario is conceivable because the Treaty does not actually make it explicit that the commencement of the third stage should coincide with the locking of exchange rates and the phasing in of the single currency. The relevant paragraphs of Article 109.l make provision for the possibility that some Member States will have derogations at the beginning of the third stage and therefore allow theoretically for the possibility that all Member States will have derogations for a further period of time.

The author, Gavyn Davies, concedes that this approach might lack political and market credibility and might not be acceptable to electorates. However, German officials have supported a similar plan under which monetary union would only exist "on paper" on 1 January 1999. Exchange rates would be gradually locked together, beginning with the most stable in a core group composed of the Deutschmark, the French franc, the Austrian schilling and the Dutch guilder. A report in the *Independent* elucidates:

> For the first year, therefore, the European Central Bank would only pretend to set interest rates and monetary targets across the core group. Its real work would begin a year later than planned, in 2000. The beauty of this arrangement is that it would give the likes of Italy and Spain an extra 12 months to put their houses in order. The delay would be justified by commercial interests: shops have long been complaining that the current transitional period, during which they will have to juggle two currencies, is too long.[70]

The Commission President Jacques Santer has spoken out vehemently against any delay in implementing EMU beyond January 1999 and has rejected the argument that stability is more important than the timetable. In a speech to foreign exchange experts in Luxembourg on 8 March Mr Santer was optimistic that criteria would still be met:

> For the first time in decades we have a situation that combines monetary stability with sound underlying economic conditions. Growth is clearly picking up in the Union ... On January 1st 1999, we shall move to the euro.[71]

As of March 1997 both Mr Santer, Chancellor Kohl and his finance minister appear to be losing ground, however, in the argument against postponement.

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[69] *Independent*, 10 March 1997.

[70] 12 March 1997.

[71] *Daily Telegraph*, 11 March 1997.

VIII Public Opinion on EMU

Under the Treaty there is no option for member states, with the exception of Britain and Denmark, to hold a referendum on entry into EMU. The terms of EMU were agreed at Maastricht and enshrined in the TEU, which in some member states was then subject to a referendum prior to ratification. That was in effect the only chance the member states had to hold a referendum if allowed by their constitutions as part of the ratification process. This has not prevented the electorate in Germany, for example, from lobbying for a referendum on EMU, or the leaders of left-wing parties throughout the Union from calling for a referendum on the Maastricht Treaty, including EMU.

Germany's attachment to the Deutschmark and the public's reluctance to give it up for the euro have become increasingly evident over the past year. Opinion polls (see below) show that once enthusiastic Europeans are now worried that the new currency will be weaker than their own and that they will be supporting the weaker currencies of Europe if a single currency goes ahead. The painful experience of monetary union with the former East Germany lies behind this fear and scepticism. In 1990 Chancellor Kohl assured the country that the process of achieving economic stability throughout the new, unified Germany would take around five years, a prediction which turned out to be a serious underestimate of the time it would take and the costs it would impose.[72] The government has promoted EMU to the German public by issuing two explanatory notes: one looking at the advantages and disadvantages of a single currency and the other answering common questions on EMU in a question/answer format.

The public mood about Europe in general and monetary union in particular has shifted perceptibly since unification, although Germans are not becoming anti-European and there have been no serious suggestions that Germany should leave the EU. Most reports now claim that more than half the German population is against a single currency, whereas at the time of the signing of the TEU in 1992 many Germans felt uneasy but were not on the whole opposed to it.

An article by Mark Jacques analyzed the German attachment to the Deutschmark as follows:

> The emotional significance of the mark is not difficult to understand. For Germans it came to represent their post-war achievement - stability and prosperity. It was a badge of honour for a people riven by guilt and consumed by a sense of failure.[73]

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[72] Estimated at DM 800 billion and rising, *Economist*, 7 December 1996.

[73] *Observer*, 17 November 1996.

This report seems to contradict current public opinion of Chancellor Kohl. It emphasised the importance of the Chancellor's personal appeal and charisma, predicting Germany's acceptance of a single currency despite misgivings:

> The immense prestige enjoyed by Kohl partly explains why, while most Germans are profoundly sceptical about the euro, in the end they will go along with it. Kohl was right about unification, so he will be given the benefit of the doubt on the single currency.

According to a poll in January by the Allensbach Opinion Research Institute only 5 per cent of Germans were totally in favour of EMU, while another 15 per cent were moderately in favour and all the rest were against.[74] The main concern of those against was that the euro would be weaker than the Deutschmark. A poll published in *Der Spiegel* on 24 February 1997 showed that 77 per cent of Germans wanted to postpone EMU from the 1999 Treaty start date, while only 18 per cent favoured entering according to the timetable.There is evidence also of little support for the parties opposed to EMU, however, borne out by the Baden-Württemberg state elections in March 1996, in which the SPD, on a eurosceptic platform, suffered severe losses. In local elections in the state of Hesse in March the CDU gained votes and won outright in Frankfurt, evidence of continuing support for the Chancellor's policies.[75]

A poll published by the Spanish Centro de Investigaciones Sociológicas (CIS) at the beginning of 1996 showed that enthusiasm for Europe, which reached 60 per cent in 1988-91 but dropped to 39 per cent in 1993 and 42 per cent in 1994, had picked up to 48.5 per cent in the most recent poll, against 24.4 per cent who thought EU membership was disadvantageous.[76] The report attributed the recuperation of support for Europe to the achievements of the Spanish presidency in the second half of 1995.

An opinion poll in the *Daily Telegraph* on 10 January 1997 showed clear divisions over EU policy in the areas of EMU, EU membership and European integration among around 4000 people (1000 each from France, Germany, Italy and Britain) interviewed in December 1996.

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[74] *Daily Telegraph*, 12 February 1997.

[75] Turn-out: 66%. SPD: 38%; CDU: 33%; Greens: 9%; FDP: 4%; Rep.:2%; PDS: 0.3%. Frankfurt: CDU: 36%; SPD: 29%, *Frankfurter Allgemeine Zeitung*, 4 March 1997.

[76] *El País*, 14 February 1996.

In reply to the question as to whether there should be a popular referendum on a single currency, the results were as follows:

	Britain	**Germany**	**France**	**Italy**
YES	76	79	66	52
NO	15	16	33	42
DON'T KNOW	9	5	1	7

Replies to the question as to whether citizens would vote for or against EMU were as follows:

	Britain	**Germany**	**France**	**Italy**
FOR	26	43	61	71
AGAINST	56	44	33	12
NO VOTE	5	2	2	3
DON'T KNOW	14	11	4	13

Asked whether they thought one particular country would dominate the EU if EMU went ahead, 56% of the British sample, 28% of the Germans, 50% of the French and 51% of the Italians thought that Germany would be the dominant power. Asked whether it was preferable to stay in or leave the EU, only the British sample came out clearly in favour of leaving. Only 42% voted to stay in in the British sample, against 75% in Germany, 76% in France and 82% in Italy. In the 1975 referendum vote in Britain on whether to stay in the EC, 67.2% voted in favour and 32.8 against.

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