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IS EUROPEAN MONETARY INTEGRATION STRUCTURALLY NEOLIBERAL?

THE CASE OF THE 1977–78 LOCOMOTIVE CONFLICT

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IS EUROPEAN MONETARY INTEGRATION STRUCTURALLY NEOLIBERAL? THE CASE OF THE 1977–78 LOCOMOTIVE CONFLICT

Disillusionment over the possibility to reform economic governance of the European Union has lent increased credence to the contention that European monetary integration is inherently neoliberal in its structure. However, it is very difficult to disentangle structure from the cumulative effect of agency. The formation of the precursor to the Economic and Monetary Union (EMU) – the European Monetary System (EMS) – in the wake of the 1977-78 Locomotive Conflict does, however, lend itself to an analysis that allows for the disentangling of the structural and agential. This is because it is located at the 'formative moment' or 'branching point' between the 'embedded liberal' Fordist and neoliberal eras. Using the concepts of construal, variation, selection and construction as developed by Jessop (2010), this paper analyses this case to test whether European monetary integration is inherently neoliberal. The variation of construals on possible European Monetary Systems is not compatible with a hard structuralism. A soft structuralism fares better but is thrown into doubt by the politics of selection.

Keywords: European Monetary Integration; European Monetary System; Economic and Monetary Union; Eurozone; neoliberalism; structuralism; Locomotive Conflict

INTRODUCTION

The European Union (EU) is neoliberal. The Single European Market (SEM) agreed upon at the 1985 Milan Summit is based on 'negative integration' and the removal of obstacles to the market. Competition policy and regulation are based on the legal principle of mutual recognition (if a commodity is legally produced in one member state, it is recognised as legal in other member states), which generated a proverbial 'bonfire of controls' in the late 1980s and early 1990s. Armed by two other legal principles – 'direct effect' and 'supremacy' – the European Commission and the European Court of Justice (ECJ) serve as formidable supranational enforcers of mutual recognition. Though the

SEM is in principle compatible with pan-European social standards and full employment policies – Jacques Delors' vision of a 'social dimension' – the highly disciplinary framework of European monetary integration has limited the scope of such policies and instead entrenched the neoliberal constitution of the SEM. In the Economic and Monetary Union (EMU), the independent European Central Bank (ECB) is legally obliged to ensure and prioritise price stability above all else, and is legally prevented from lending directly to member states or EU institutions. Fiscal policy rules legally oblige member states to work towards balanced budgets, and the funding of deficits is conditional on neoliberal 'structural reforms', such as privatization of public assets and deregulation of labour markets. The most extreme case is that of Greece, which has become a laboratory for Third World type structural adjustment policy within the EU itself (Kouvelakis 2018). Moreover, the proposal for a Regulation to govern the COVID-19 Recovery and Resilience Facility insists that disbursement of funds is made conditional on the implementation of 'structural reforms' in the European Semester also in surplus countries (European Council 2020).

But is the monetary integration that formed the EMU *inherently* neoliberal in its very *structure*? This question is important because so much of the debate over how one might address the problematic forms or 'design failures' (de Grauwe 2013) of EMU depends on it. This debate became urgent in the past decade, given the economic and social costs of the Eurozone crisis and the 'resolution' of this crisis, which was increasingly based on dominance and arbitrariness rather than consent (e.g. Nanopoulos & Vergis 2019). The urgency has not been diminished by the COVID-19 crisis and controversies surrounding the Recovery and Resilience Facility.

There is little evidence in support of neo-functionalist assumptions (e.g. Habermas 2001, 82-83; 2013) of cosmopolitan power mobilisation that is strong enough to press for 'another Europe'. It is therefore understandable that affirmative answers to the question posed here have gained traction. For Werner Bonefeld (2012), the affirmation resides in the essential function that disciplinary neoliberal European monetary integration performs in separating economic from political forms in European capitalism. Costas Lapavitsas (e.g. et. al. 2012) considers the neoliberal character of the Euro to inhere in its peculiarity as 'world money'. In these hard structuralist readings, a 'good Euro' is not possible. Rather a great refusal is called for, in an exodus from EU institutions. Wolfgang Streeck (2013) advances a softer form of structuralism. Despite a scathing critique of the actually existing EMU, he argues that a 'European Bretton Woods', based on the reintroduction of national currencies anchored with the Euro (that is, a *common* rather than a *single* currency) could be an antidote to the crisis of democratic capitalism. Yet, enduring differences between national lifeworlds mean for Streeck, as per Fritz Sharpf diagnosis of a 'joint decision trap' (e.g. cf. 2002), that EMU necessarily locks Europe into a Hayekian architecture.

Despite making strong implicit assumptions about the relationship between structure and agency in European monetary integration, the above arguments are rarely based on a systematic analysis of this relationship. This is admittedly not a straightforward exercise, since institutional configurations such as the EMU are, in the concrete, 'alloys' of the structural and the agential (Hay 2002, 127). Nevertheless, judicious historical analysis can help clarify what in the disciplinary neoliberal character of the EMU inheres in the structure of European monetary integration and what is the cumulative result of neoliberal agency that has dominated European and transatlantic political economy since the 1980s.

An in-depth study of the so-called 'Locomotive Conflict' fulfils the criteria for such a judicious historical analysis. The conflict started at the inauguration of Jimmy Carter as US President, lasted throughout 1977 and at least until the Bonn G7-Summit in July 1978. The Locomotive Conflict is so-called because it refers to the pressure that was exerted by the Carter Administration on the main advanced capitalist balance of payments surplus countries – West Germany and Japan – to reflate and thereby help the US to serve as 'locomotives' pulling world-economic growth on the demand side. No longer able to perform this role on its own, the US led an alliance in multilateral diplomacy that sought to persuade reticent West German and Japanese governments to reflate. But if this did not work – and it did not – the US declared itself willing to compel West Germany and Japan to reflate by devaluing the Dollar through unilateral domestic reflation. Such compulsion would result from the pressure the counterpart appreciation of the Yen and Mark would exert on the Japanese and German export-oriented growth models. The latter worked. West German growth fell short by 2.5 percent compared to original projections against the backdrop of a 20 percent devaluation of the Dollar against the Mark and prompted West Germany to enact expansionary policies. But this underlined German vulnerability to the 'Dollar weapon' in the post-Bretton Woods flexible exchange rate regime. Hence, having previously been reluctant to support a broader fixing of European exchange rates, Chancellor Helmut Schmidt made a dramatic U-turn in favour of an encompassing European fixing of exchange rates at the Copenhagen European Council Summit in April 1978 and proposed what would become the precursor of the EMU, namely the European Monetary System (EMS) (Henning 1998, 557-59).

The interesting thing to note here is that although the EMS would eventually be designed so as to become the main mechanism for exerting neoliberal discipline in Europe in the 1980s, its origins in the Locomotive Conflict precedes the formative events of the neoliberal turn. At the same time, it took place at a time when the Bretton Woods anchor of post-World War II New Deal Keynesian 'embedded liberalism' (Ruggie 1982) had definitely broken down. In other words, the Locomotive Conflict is located at a moment in time that satisfies the historical institutionalist criteria for a 'critical juncture' or 'branching point' (Hall & Taylor 1996, 942), where institutional path dependencies had definitely broken down without new ones yet having been formed. In other words, the Locomotive Conflict is an excellent case to observe the extent to which deeper structures than the 'procedures, routines, norms and conventions' of organizations (Ibid., 938) are at play vis-à-vis the contingencies of interacting strategic agents. This is of contemporary relevance as with the COVID-19 crisis we arguably find ourselves in a similar situation.

Using the concepts 'construal', 'variation', 'selection', and 'construction', developed from Bob Jessop's state theory to facilitate critical policy studies (2010), this paper will demonstrate that the formation of EMS does not point to a structurally determined 'disciplinary neoliberal' outcome. In a hard structuralist reading that would imply that the ultimate disciplinary neoliberal *construction* of the EMS arose from a single disciplinary neoliberal *construal*. This is not the case. Helmut Schmidt's championing of what would become the EMS allowed for multiple and varied readings and invocations of preceding models of monetary integration, several of them with strong Keynesian elements. A softer structuralist reading, on the other hand, can accommodate this variation of construals. Its point would be that it is the *selectivity* inscribed in the process that only allows for a neoliberal outcome, arising through logic of negative integration and the joint decision trap. This is a more plausible reading as it accords with the ultimate outcome and the dearth of positive joint decisions. But it is thrown into doubt by contingencies in the process. The process certainly does not accord with the 'lowest common denominator' between the most powerful member states (Moravcsik 1998). Focusing on deliberations over what should be the *numeraire* of the Exchange Rate Mechanism (ERM) and over European Monetary Fund (EMF), this paper argues that such a reading underestimates the willingness of Germany to compromise to bring Italy and the UK into the ERM. It also underestimates the extent to which a more Keynesian compromise was within the grasp of the UK, Italy and France and faltered primarily because of an idiosyncratic veto exercised French President Giscard d'Estaing – not Schmidt – at the December 1978 Brussels Summit. Ironically Giscard's veto went against what France has sought to achieve ever since.

The first part of the paper offers a definitional account of disciplinary neoliberalism and specifies how the EMS can be seen as the institutional anchor of disciplinary neoliberalism of European political economy in the 1980s. It is also explained how the EMU can be seen essentially as an outgrowth out of the EMS. The second part of the paper introduces the Jessopian concepts of 'construal', 'variation', 'selection' and 'construction', offers a definitional account of the concept of 'structure', and serves as a reminder of the extreme ontological commitment that structuralism implies. The final section outlines the historical evidence from the formation of the EMS as it emerged against the backdrop of the Locomotive Conflict.

NEOLIBERALISM

Defining neoliberalism is not a straightforward exercise. One trap is that of equating it with the utopian thought of this or that specific intellectual active in the Mont Pelerin Society and thereby concluding that there has not been a neoliberal era at all. Such a strict definition would lose sight of salient specificities of global capitalism since the 1980s. Another trap, tending in the opposite direction, is to stretch the concept so far that it becomes virtually synonymous with capitalism and therefore meaningless. David Harvey (2007, 9, 19) provides a compelling explanation as to why this problem of definition arises. Neoliberalism is both a utopian project of realising a theoretical design *and* a more pragmatic political project of reasserting capitalist class power and the conditions for capital accumulation in response to the crisis of the 1970s. The former serves as an instrumental rationality to justify and legitimate whatever needs to be done to secure the latter. When the two are in conflict the latter prevails. The 'creative tension' between them explains the complex, variegated, hybridity of neoliberalism, its multiple determinations, and the confusion that surrounds it.

Reference to utopian theory has its uses as it helps to specify a substantive neoliberal kernel: the advancement of entrepreneurial freedom, strong property rights, free markets and free trade provided through publicly constituted and guaranteed institutional frameworks; and the political decision of the state to refrain from discretionary intervention in other respects, enabling, for instance privatisation. Entailed in this is a particular way of defining societal problems (for instance, as inflation or the competitiveness of the state) and to see competitive markets as the solution to these and more generally as the means through which to develop human society (Patomäki 2009, 432-33). At the same time, the hybridity and contradictions between variants of neoliberal thought should be acknowledged (Ibid., 433). Moreover, actually existing neoliberalism is pragmatic in relation to constraints and opportunities as they arise in concrete situations (see also Drainville 1994). From the perspective of some variants of neoliberal theory, European monetary integration is problematic as the fixing of exchange rates and ultimately the creation of a supranational currency takes out of play the market-price mechanism between flexible currencies. Nevertheless, the effect of the pragmatic outcome that resulted from such integration has enormously advanced the neoliberalisation of European economy and society. The reintroduction of unemployment as a disciplinary stick, the reduction of effective entitlement in social policy, and the enormous advancement of privatisation, more recently in the 'structural' provisions of Troika Memorandums of

Understanding and the European Semester have significantly commodified European political economy (Ryner & Cafruny 2017, ch. 5).

Stephen Gill made an original contribution to understanding the central mechanism at play through his concept, derived from Karl Polanyi, of 'new constitutionalism'. This was originally presented as a reflection on the institutional arrangement of the EMS. For Gill, new constitutionalism entailed 'the construction of legal or constitutional devices to insulate economic institutions from popular scrutiny or democratic accountability' in order to 'place constraints on macroeconomic policies through the balance of payments constraint' (1991, 299, 282). Thereby, the power of capital to potentially withhold investments is enacted through the steering-medium of money so as to reduce social demands on the state (Offe 1984). In the case of EMS, this worked through fixing of exchange rates to the German Mark, administered by the strictly monetarist independent German Central Bank, the Bundesbank. In the context of increasingly mobile capital markets, any attempt by other members of the system to pursue more expansionary policies would result in counteracting increases in interest rates neutralising the initial stimulus. Informed by rational choice theory, the arrangement was likened to Ulysses tying himself to the mast to resist the call of the Sirens (cf. Giavazzi & Pagano 1988). Gill's invocation of Polanyi was in direct response to John Gerard Ruggie's (1982) description of the Bretton Woods system as an 'embedded liberal' system, which had operated through capital controls, supporting swap networks, and an anchor currency governed through a Keynesian rationale.

It is customary to see the formation of the EMU after the 1991 Maastricht Summit as a momentous and path-breaking turning point. Though abandoning national currencies is a momentous event, it is nevertheless important to underline the continuities between EMU and EMS and the extent to which the former evolved out of the latter.[1] The Euro as a unit of account was a direct outgrowth of the EMS unit of account, the European Currency Unit (ECU). And, the ECB was modelled on the Bundesbank. One can even see the adoption of the Euro simply as setting the ERM fluctuation band of currencies irrevocably at zero. But it is here that one can perceive the main change, namely that the 'power of exit' that was central to the EMS no longer exists. This is the main point of the critics of the EMU who see the return to national currencies, possibly in an EMS-like fixed exchange rate regime, as a way to reassert popular sovereignty. In deliberations over the formation of EMU and the resolution of the Eurozone crisis, the concern was the opposite, namely that removing the threat not to support a currency subject to speculative attack by financial markets may blunt neoliberal discipline. It is for that reason that neoliberal actors such as German economic state managers

1 For a particularly clear articulation of the common rationale of EMS and EMU, see Issing (2002).

insisted on the Growth and Stability Pact that defined a set of fiscal policy benchmarks that EMU members must follow (Dyson & Featherstone 1999). After the Eurozone crisis and with the formation of the New Economic Governance, this juridification became increasingly upfront, not particularly subtle, and in many respects similar to coercive impositions of neoliberal utopianism. When Eurozone members, which have ceded the sovereign right to make money to the European Central Bank that is legally obliged not to lend directly to them, find themselves in a position of default or insolvency, the Memorandums of Understanding that they sign are not unlike IMF Structural Adjustment Programmes with all that this entails in terms of macroeconomic austerity, privatisation and structural reforms to facilitate commodification.

But was European monetary integration structurally determined to operate this way? Before considering this question with reference to the Locomotive Conflict, the next section will seek to clarify what is meant by 'structure'.

STRUCTURE

An analytically rigorous conception of structure must remember its origins in structuralist intellectual movement and its theoretical transposition from semiotics to the critical social sciences via psychoanalysis. Louis Althusser (e.g. 2001) was a central figure in this transposition, in his pursuit to understand the powers of the capitalist state over the very production of subjects. This was done through what was then a state-of-the-art rereading of the psychanalytic tradition by Jacques Lacan. For Lacan, humans become subjects through the acquisition of linguistic capability at infancy. But what is language? Lacan and Althusser understood it through conceptions by the 19-century semiologist Ferdinand de Saussure. For Saussure, to understand the very possibility of language and communication we have to understand its fundamentally relational character as discourse. He referred to these ensembles as *langue*. That is, an utterance (such as 'mother') – or signifier – is only meaningful when understood in terms of its necessary relation to other signifiers (such as 'father', 'child', 'family') internal to this ensemble or structure. *Langue*, which connotes the idea of grammar, then, conditions and makes possible actual language (*parole*). Via Lacan, Althusser takes this conception of language to understand what makes subjects possible and their very constitution through the Freudian repression mechanism. For Althusser it operates through the apparatuses of the extended state – for example, the education system – in their function to reproduce capitalist social relations. But Lacan's focus was on deep socialisation of the unconscious at infancy, for instance through the Oedipus complex, the mirror phase, and primary narcissism. In an early analysis of neoliberal hegemony, Stuart Hall (1988, 50), while acknowledging the importance of these 'primary positionings' that makes subjects possible, critiqued Althusserian attempts to simply read off the phenomenon with reference to them. Though conditioned by them, the struggle over hegemony operates at a different level from primary positioning. For one, it is just as much a question of repositioning subjects as it is about their primordial production. In other words, one should be wary of reducing *parole* and practices to *langue* and structure.

The impact of structuralism on the social sciences was nevertheless immense. Lévi-Strauss found the basic grammar of human society, traversing time, space and modes of production, to reside in the incest-taboo. Other anthropologists provided alternative routes to similar positions through the functionalism of Malinowski, influenced by Durkheim and Mauss. Operating on a shorter (but still very expansive) temporal and geographical scale, social scientists thus reinterpreted relational theories such as utilitarianism or Marx's conception of the commodity form and the formal separation of the economic and political, to make claims about the *langue* of the anarchic international system (e.g. Waltz 1979) or (global) capitalism (e.g. Wallerstein 1974; Poulantzas 1978; Rosenberg 1994).

In one way or another, Bonefeld's, Lapavitsas' and Streeck's analysis can be traced to structuralism. Bonefeld's (2012, see also 2002) 'Open Marxist' structuralism is the hardest and most explicit of the three. For Open Marxism, a series of formal separations of what substantively is inseparable, in the last analysis based on what Marx called the fetishism of commodities, are constitutive of capitalist structure (Burnham 1994). Invoking the transition from Part I and Part II of Marx's first volume of *Capital*, Open Marxists maintain that these formal separations uphold the surface-level illusion that capitalist 'civil society' is free of domination and depoliticize class conflict. The most fundamental formal separation is that between the direct producers and the means of production through private property. Secondly, there is the separation between the economic and the political through the market-state dichotomy. Third, there exists a separation between states in the inter-state system of the capitalist world market. From this perspective, Bonefeld categorically rejects the notion that European integration counteracts the final inter-state separation in any meaningful way. To the contrary, European integration is the quintessential neoliberal moment in European capitalism that secures the forms of separation. It is hard to avoid the reading that for Bonefeld neoliberalism defines the very possibility of European integration and finds its essential expression in new-constitutional competition policy and monetary policy. Neoliberalism is, in other words, the grammar or *langue* of European integration.

Lapavitsas' structuralism is less explicit. But its source in Marx's conception of the money commodity form is clear enough. The structural implications of European monetary integration, culminating in EMU, arises from the structural logic of capitalist imperialist competition. More specifically, it arises from German leadership over a European capitalist alliance in capitalist competition and the forging of a 'world money'. It 'aim[s] to meet the paying and reserve requirements of large European enterprises and facilitating global operations of European states', and it is 'determined by the large European banks and enterprises that primarily deploy the Euro' (Lapavitsas et al. 2012, 157-158). According to Lapavitsas, such world money requires European monetary integration to be disciplinary neoliberal. A "good Euro" alternative is bound to fail because existing Euro policies are internally related to the credibility that the Euro needs to accumulate in world markets to secure its world money status. Of course, one could ask, if the Euro is world money, why should the "good Euro" supranational alternative in principle be impossible? After all, world money generally enjoys the 'exorbitant privilege' of being able to pursue expansionary policies without the international system imposing adjustments. The answer provided is that, although this is why the status of world money is coveted, the Euro cannot exercise these privileges because, as a contender currency to the Dollar, it has not yet won this sought-after status (Ibid., 157).

Bonefeld and Lapavitsas offer two different versions of what one might call a hard structuralism, wherein the very structural grammar determines action. Streeck (2013) offers a softer version that allows for state agency. But the disparate nature of such agency, where nation-states pull in different directions in the context of an integrated market and monetary union, generates a quintessentially neoliberal effect. The analytically clearest version of this argument is the rational choice institutionalism of Fritz Scharpf (2002), captured by the concept of the 'joint decision trap'. As Streeck points out, this fits to a tee the design envisaged by Friedrich Hayek of an 'inter-state federalism'.

> Although, in the national state, the submission to the will of the majority will be facilitated by the myth of nationality, it must be clear that people will be reluctant to submit to any interference in their daily affairs when the majority which directs the government is composed of people of different nationalities and different traditions.... [T]he central government in a federation composed of many different people will have to be restricted in scope if it is to avoid meeting an increasing resistance on the part of the various groups, which it includes (Hayek 1939, cited in Anderson 2009, 30).

But why are nation-states bound to be caught in such a trap and cancel each other out by pulling in different directions and thus prevent the development of a 'European Bretton Woods' that also Streeck deems desirable? In answering this question, Streeck turns to the concept of the 'lifeworld. Arising from Husserl's phenomenology, it refers to the shared context of the self-evident that makes intersubjective meaning – and hence mobilization of agency – possible. For Streeck (2013), lifeworlds are fundamentally nationally segmented in Europe.

A set of empirically observable implications can be derived to test the propositions of the above arguments, with the aid of Bob Jessop's (2010) critical policy analysis, developed through career-long critical engagement with structuralist state theory (e.g. 1990). Jessop has developed four key concepts to facilitate such an analysis, namely construal, variation, selection, and construction.

The concept of construal is clearly developed through such an engagement. Echoing Lacan on subject-formation through Freudian repression, for Jessop construal addresses the 'existential necessity of complexity reduction' to satisfy the 'condition of "going on" in the world' (2010, 336-337). In other words, social phenomena, including the formulation of crises, policy problems and solution may be real and objective, but are only available through representations shaped by how these are construed. Variation refers to the 'contingent emergence' of a range of possible such construals (Ibid., 340). It is with reference to these concepts that it is possible to specify the key observable implication of the hard structuralist position of Bonefeld and Lapavitsas. It does not allow for variation of construals as European monetary integration is determined by a primary positioning emerging from its social grammar. This is an extreme position not born out by the evidence provided below.

But there is long way from the construal of a policy to its outcome in the efficacy of construction. After all, the history of European integration is littered with initiatives that never amounted to much. Some construals are privileged in the process of selection (Ibid., 340). A softer version of structuralism, such as that of Streeck, has no problem in accommodating a variety of construals whilst still claiming that there is little to no contingency in the process of generating an outcome. Negative integration symptomatic of the structural power contemporary capitalism more often than not generates such outcomes through non-decisions as disparate agency cannot meet the threshold for agreeing an effective joint decision. This is a more plausible position but, as will be argued below, the implication that the outcome is one of the 'lowest common denominator' does not sit well with evident contingencies.

THE LOCOMOTIVE CONFLICT AND EUROPEAN MONETARY INTEGRATION

The Locomotive Conflict took place at a turning-point in the political economy of transatlantic relations. For three decades, since the end of World War II, it had been shaped by the transposition from the United States of the mass production system known as 'Fordism' and a range of social technologies that had integrated mass production and mass consumption. Michel Aglietta (1982) has called this multileveled ensemble of technologies 'monopolistic regulation' and has argued that by the late 1970s, some of its key contradictions had become manifest. On the one hand, the generalization of the wage relation – welfare capitalism – required states to develop economic policies oriented towards ensuring social cohesion of their national societies. On the other hand, the economies of scale of the productive system tended to expand beyond the borders. As a result of this 'two-fold mediation', balance of payments polarization between surplus and deficit countries became an endemic feature during the period of Atlantic Fordism. The management of this polarization became the key condensed site upon which transnational politics shaped future socio-economic development (Ibid., 11).

The management of this emergent polarization during the 'golden age' of Fordism, and the unravelling of its very particular conditions of existence, are well known and researched. The overwhelmingly superior productive capacities of the US and its structural balance of payments surpluses made it possible to credibly expand international liquidity through the Dollar-Gold standard under Bretton Woods. As the relative dominance of the US waned, 'Triffin's Dilemma' emerged, with a fundamental policy tradeoff between maintaining the credibility of the value of the US Dollar as expressed in a fixed gold rate (the gold window) and the requisite supply of international liquidity to maintain growth rates (Ibid., 12-16; see also e.g. Block 1977; Parboni 1981). In reaction to what it viewed as intolerable attempts of international economic management to intrude on its prerogatives, the US closed the gold window in 1971 and sealed the end of the Bretton Woods system and the beginnings of a flexible Dollar standard system. This intersected with the decline of productivity growth as the Fordist factory system started to reach its frontiers, labour militancy was on the rise, and as the strengthening of OPEC changed the key commodity price upon which the system was based: oil. Together these developments ushered in a crisis of profitability and stagflation. It is against this backdrop that the Locomotive Conflict took place.

There was a particular European moment to these developments. An increasingly integrated productive system in Europe had been built up on the template of fixed exchange rates tied to the Dollar under Bretton Woods, despite polarization between surplus and deficit countries emerging very early in the post-World War II period. Before the return to currency convertibility in 1958, the European Payments Union (EPU) had virtually eliminated balance of payments constraints on deficit countries (most notably Italy and France) through the so-called counterpart fund principle. This principle originated with the Marshall Plan, where recipients of shipments paid into the EPU the equivalent Dollar amount in non-convertible domestic currency that could only be used to buy European goods. In the early post-war years, this became the main instrument for establishing intra-European trade and the net exports of the main surplus country – Germany – would not have been possible without the principle of counterpart funds. Balance of payments constraints re-emerged with convertibility in 1958 but did not become actual in the early 1960s as Germany was still undergoing productive reconstruction of its capital stock and acted as a locomotive of the European economy. However, this changed in 1966 when the Bundesbank raised interest rates in response to inflationary growth and an emergent balance of payments deficit in Germany itself. From this point on it became increasingly difficult to structurally couple virtuous links between demand and productivity growth in Europe, against the backdrop of the aforementioned global developments (Halevi 2019a; 2019b). Ironically, this happened at a juncture of progressive developments in Germany itself (codetermination reforms, a reduction of worktime, and a rising wage share). This was because the latter reforms were economically based on rents generated through corporatist concertation and an export orientation that was increasingly based high value added industries. Bundesbank price stability policy served as an anchor to such collective bargaining (Markovits & Allen 1984; Streeck 1994).

In the course of the 1970s Germany initially responded positively to the coming of a flexible exchange rate regime as it liberated the country from the obligation to import American inflation. It was happy to keep strict criteria on informal European monetary cooperation for fixed exchange rates among a small set of convergent partners in the so-called 'Snake in the Tunnel' and was sanguine as states left the Snake. The pressure exerted by Dollar devaluations on German exports during the Locomotive conflict changed all that and was the key direct motivation for Schmidt's U-turn at the Copenhagen Summit on April 7 1978 (Spiegel 1978a; Spiegel 1978b).

Variety of Construals

A hard stucturalist reading encounters immediate difficulties in explaining the formation of the EMS that starts with Schmidt's dramatic performance at the Marienborg Castle European Council. According to such a reading the variation of construals should be zero. Accounts contemporaneous to events are rather striking in their report of the degree of variety and indeed ambiguity, not to mention the presence rather than absence of Keynesian elements where there was no ambiguity. *The Economist* playfully invoked Luigi Pirandello when reporting on the Economic and Financial Affairs Council (ECOFIN) trying to sort out any details of what Schmidt's initiative actually meant and what the heads of government had agreed to explore further. 'Nine finance ministers in search of an explanation', it quipped (Economist 1978a). The Annex that accompanied the Communique of the July 7 1978 Bremen Summit, where the decision to agree a European Monetary System (or 'union' or 'super-snake' as it was rather called) by the end of that year was made, was also seen as characterised 'more for its holes than its strings' (Economist 1978b). This, and the range of models of European monetary integration that was being deliberated upon, are not consistent with a hard structuralist interpretation. This is especially so if one bears in mind that this was in an environment where there were many capital controls in member states and at a time when, under the stewardship of Commissioner Etienne Davignon, the EC was setting up several 'crisis cartels' and other protectionist measures so as to use state power to restructure industries such as steel and textile (Buch-Hansen & Wigger 2011, ch. 4).

There were two key 'holes' between the 'strings' in the Bremen Summit Communique Annex (European Council 1978; Economist 1978b), which elided contestation in the Council and within member states, and with huge implications over what kind of EMS would emerge. The first of these concerned what would be the *numeraire* and reference currency for the fixed exchange rate regime, the ERM. Would the fixing be in terms of nominal exchange rates, which was bound to result in the burden of adjustment falling on the weak currencies? Or, would it be with reference to the Unit of Account, the ECU (European Currency Unit)? As it would be composed by a weighted basket of the national currencies, it would compel a more symmetrical adjustment. The Annex elided the issue by vaguely stating that the ECU 'would be at the centre' of the system. The second 'hole' concerned the character of pooled reserves and possible transfers between the members of currency zone through a European Monetary Fund (EMF). 20 percent of the stock of official foreign reserves held by member states central banks (mainly Dollars and gold) would be pooled in EMF in exchange for ECU's. But it was silent on whether gold would be exchanged at the then IMF official rate (42 Dollars/ounce) or at the market rate. This would have major implications for the size of the Fund and the quantity of ECU's issued. In addition, member states would deposit national currency into the EMF to an 'amount of comparable order of magnitude' to the deposited reserves. The use of credits against reserves would be – strikingly for a contemporary observer – unconditional, whereas the use of ECU's against national currencies would be based on conditionalities 'varying to the amount and maturity'. However, the Annex was silent on what the conditionalities might be. Notably, and in contrast to the day-to-day Very Short Term Facilities (VSTF) of the 1987 Basle-Nyborg Accord, the Annex does not mention any temporal limit to EMF loans. It simply states that 'due account will be given to the need for substantive short-term facilities (up to one year)' (European Council 1978, 21).

The Annex is brief and terse. But it was not drafted in a vacuum. It rather emerged from, and different ways invoked, construals of monetary union and cooperation that had been made in the immediate years prior. These had been given impetus and momentum by the then new President of the Commission, Roy Jenkins. Especially important in that regard was a conference organized for the College of Commissioners at La-Roche-en-Ardennes 16-18 of September 1977 and two 'notes' made on monetary integration. A more ambitious 'note' for monetary union was presented by Jenkins himself, co-written with his aide Michael Emerson (European Commission 1977b). Jenkins would subsequently make his ideas public at the Jean Monnet Lecture in Florence October 27 and in a special pitch to a German audience in Bonn on December 8 (Jenkins 1977a; Jenkins 1977b). The other more incremental 'consideration' was written by Jenkins' predecessor Xavier Ortoli (European Commission 1977c), who had stayed on as Commissioner for Economic and Financial Affairs. The point of contrast concerned whether an incremental evolutionary approach should be favoured (Ortoli) or whether a path-breaking initiative was needed (Jenkins). Whether this was a disagreement or whether it was, as the Commission itself suggested, a matter of perspective with one focusing on the long-term and the other on developments within five years, is an open question.[2] In terms of policy content, the differences between the two proposals was marginal.

Writing in a context of high inflation, there are traces of what would become the disciplinary neoliberal content of the EMS and EMU present in the Jenkins/Emerson note. Most notably, it saw the introduction of a single currency issued by a Community-wide central bank as an opportunity to decisively break Europe's inflationary spiral and address the problem of states such as France and UK being 'tempted to start reflating before having mastered their inflation problems' (European Commission 1977b, 3). 'The prospect of European stabilisation policy being led by a fairly hard-line central bank is quite plausible and attractive one' (Ibid., 7). Furthermore, 'modern monetary theory is sufficiently influential that many people would be more sympathetic than a few years ago to giving independent powers to the monetary authority' (Ibid., 7). The Jenkins/Emerson note also saw the 'small country case' as 'illustrative' for the 'main argument', namely that 'its business interests cannot afford to get out of line with the cost and price performance of the neighbour' (Ibid., 4).

Yet, the Jenkins/Emerson note cannot be reasonably read as a disciplinary neoliberal document. For all of the above, there are equivocations that clearly are intended to 'balance' the argument with Keynesian rationalities. A 'common normative Community standard' would also redress Germany's 'long hesitating over reflation with its inflation comfortably down to 3.5 to 4 percent' (Ibid., 3). And, Europe's investment problem was seen as a Keynesian demand-side problem as 'German investors do not see the demand coming from the rest of Europe' (Ibid., 11). This is in contrast with fiscal federal United States 'moving ahead because Mr. Burns has inflation more or less under control,

2 The preamble of European Commission (1977b) states that 'While Mr. Ortoli's paper surveys a broad range of possible developments in Community policy with special reference to the next five years, the present paper looks more at the merits of the case for monetary union as it now appears in the light of recent economic developments'.

Mr. Carter will use his budgetary power to sustain the recovery, and neither have to worry much about deteriorating balance of payments' (Ibid., 11). The Jenkins/Emerson note the benefits of seigniorage emerging from the common currency becoming a leading world currency (Ibid., 8-9). The governance of the central bank is a 'political issue' (Ibid., 7). With assumptions that clearly are based on the Keynesian conception of trade-off between inflation and unemployment *á la* the Phillips Curve, the attractiveness of hard-line monetary policy must 'be seen with the employment prospects' (Ibid., 7). The document does not envisage a constitutional lock-in of the central bank mandate. Rather, 'it could be more or less pro-employment or pro-stability in the way that any government has to make this kind of choice' (Ibid., 9). Furthermore, 'the Community would also have fairly substantial budgetary powers for discretionary use' (Ibid., 10). The latter is a crucial point. While 'member states would retain large budgetary autonomous powers affecting employment' (Ibid., 10), the Jenkins/Emerson paper makes sustained references throughout to the McDougall Group on which Emerson had served. Its General Report had been published earlier in 1977, and had argued that monetary union would require a Community budget of 5-7 percent of Community GDP for social expenditure and 7.5-10 with defence included. 'Pre-federal integration' would require such a budget of at least 2 percent of GDP (European Commission 1977a). This argument is clearly grounded in a Keynesian rationality, where an optimal currency area is unlikely to emerge due to limited factor mobility at least in the short to medium run. Regional transfers are therefore needed as automatic stabilizers to counter asymmetric shocks. More concretely the Report recommended a Community wide unemployment insurance scheme. Furthermore, outright distributive arguments are invoked by the Jenkins/Emerson note as well as by the McDougall Report (European Commission 1977a, 59-64; European Commission 1977b, 6, 13-14).[3]

Ortoli's 'consideration' emphatically did not have Jenkins' federalist orientation and was terse by comparison, sometimes cryptic. But in terms of content, it is strikingly similar in the blending of Keynesian elements with traces that would be recognised from the contemporary disciplinary neoliberal regime. His more modest proposal of objec-

3 Jenkins had a wealth of further reports on monetary union that he could potentially draw on. These had been produced by various study groups appointed by the Commission in response to the failure of the Werner Plan. They included, for example, the Marjolin Report, closely related to the McDougall Report. Whereas the latter focused on public finance, the former had a broader remit (European Commission 1975). The proposal for a Community wide unemployment benefit scheme did, however, originate in the Marjolin Report. There was also the Magnifico Report (European Commission 1973). A more informal grouping of economists, but many of them in the network that the Commission drew upon for its studies, drafted the so-called 'All Saints Day Manifesto', published in The Economist, calling for a parallel currency. This one had strong monetarist overtones as it assigned primacy to fighting inflation through a new reserve currency. Notably though, even this manifesto did call for a 'vigorous regional policy' which is quite striking compared to what would eventually emerge (Fratianni et. al. 1975).

tives that he saw as achievable in five years, included something that those familiar with the current European Semester would recognise: 'strengthen and make more binding… measures…to bring about closer convergence of economic policies'. This, most notably, was to include 'discussion of budget deficits and how they are to be financed' and 'Community level discussion to (sic) the public sector as a whole' (European Commission 1977c, 5). But Ortoli also quite clearly endorsed a Belgian proposal that had been put forward in the Council in order to facilitate member states outside The Snake to re-enter it without eliminating their ability to engage in Keynesian macroeconomic management (European Commission 1977c, 6). This initiative, by Finance Minister Jacques van Ypersele was itself a synthesis of proposals by Dutch Finance Minister Wim Duisenberg and French Finance Minister Jean-Pierre Fourcade. It was Fourcade who had proposed a joint credit system and that the European Unit of Account would be made the reference currency and hence facilitating symmetrical adjustment. Duisenberg had also proposed a mutual assistance system and target zones for a gradual return to the Snake (Mourlon-Druol 2009, 217). The Bremen Summit Annex clearly relates back to these initiatives.

The Politics of Selection

Whereas a hard structuralism based on 'primary positionings' falters at the level of construals, the softer structuralism such as that of Streeck is not so easily dismissed. After all, the history of European integration is littered with proposals, registered in the archives, that never amounted to much. The structural moment rather enters at the point of selection, where negative integration and the joint decision trap make themselves felt on disparate states with distinct nationally segmented lifeworlds. And indeed, events can be explained in these structural terms. Nevertheless, events leading up to the formation of EMS casts some serious doubt on this interpretation.

When the ambiguities of Schmidt's proposal from the Copenhagen Summit were to be ironed out, and wherein the Bremen Annex is a staging point, the construals contained in documents discussed in the previous section were the points of reference. Notably, in the process between Copenhagen and Bremen, ECOFIN and the Monetary Committee of central bankers did not become the main locus for deliberation. It seems rather that Schmidt was determined not to let the Bundesbank or the Ministry of Finance take the lead. Instead, he appointed his own economic adviser at the Chancellery, Horst Schulmann to the working group in which the Heads of Government/State of the big three member states – Germany, France and the UK – decided would take the lead. By contrast, French President Giscard d'Estaing appointed the President of the Banque de France, Bernard Clappier, who had also served on the Marjolin Committee. British Prime Minister James Callaghan appointee, Kenneth Couzens, came from the Treasury. Couzens not only assumed a sceptical posture but also took a hands-off approach and quickly absented himself from proceedings. The road to Bremen, then, was staked out by the Franco-German axis and the Annex was primarily a product of the authorship of Schulmann and Clappier (Mourlon-Druol 2012, 182-83).

As discussed in the previous section, the Bremen Annex elided two crucial issues. The first concerned whether the ERM would be based on a grid of nominal exchange rates or the ECU. The second concerned the being, size and nature of the EMF. The manner in which these issues were resolved would decisively determine whether the EMS would become something akin to a 'European Bretton Woods' or whether it would be disciplinary neoliberal. The ultimate outcome was the latter. The ERM became based on a currency grid (though some sophistry proposed by Belgium that currency movements would be registered in ECU terms provided the veneer of compromise (Economist 1978d). The EMF, to the extent to which it had any meaningful existence at all, became severely restricted to very short term transactions and to which the Bundesbank reserved to veto its contribution on a case-by-case basis through the so-called 'Emminger Letter'.

This outcome most certainly accords with soft structuralism. The creation of a substantial European Monetary Fund and a meaningful common reference currency set high thresholds of joint decisions. As Scharpf fears and Hayek hoped, non-decisions structurally secured a neoliberal outcome, with the boundaries of the permissible carefully policed by Germany's self-interest. Though it would be wrong to dismiss a strategic selectivity here, it is nevertheless important to stress that it was *strategic* and therefore subject to agency that had to be enacted to produce the outcome. Furthermore, alternative agency working for another outcome was not as far-fetched as this soft structuralism would have it.

First, the German Chancellor was much more willing to compromise on the disciplinary neoliberal content of EMS than what is usually supposed. His priority was to avoid the German Mark being forced to take the store of value functions of a world currency alternative to the Dollar, because, as the Locomotive Conflict had illustrated, of the detrimental consequences on the German export oriented growth model. At the point of the Bremen Summit, evidence suggests that he was in fact favourably disposed to the ECU as the numeraire of the ERM as it would rather take on that store of value function but in the form of a basket of European currencies (Economist 1978c, 50). It is clear that the Bundesbank had strong preferences for a currency grid system and eventually Schmidt was won over on this point. However, the Bundesbank had to work for that outcome (Economist 1978c). On the question of the EMF, Schmidt was more difficult to win over, but in a defensive manoeuvre the Bundesbank managed to stake out an autonomous position to which Schmidt gave ambiguous consent. This took the rather idiosyncratic form of a caveat expressed by the Bundesbank President in a memorandum to the Chancellor, the so-called Emminger Letter. In this letter, the Bundesbank reserved the right to withhold funds to the EMF should it consider it to violate the Bundesbank mandate to uphold price stability in Germany. This was discussed by the Bank's Governing Board with Schmidt in attendance. Schmidt explicitly raised the question of whether this was in good faith with the European partners but implicitly mandated the Bundesbank position by saying 'one can only do what one is able to do' (Deutsche Bundesbank 1978).

Even so, a more substantive EMF with considerable redistributive and reflationary bite was a possibility, if a small group of powerful states, namely France, Italy and the UK, had acted differently. Indeed, one could go so far as to suggest that they had to fumble to quite a considerable extent not to achieve this outcome. Schmidt did not consider Germany's position as impervious as is retrospectively supposed. First, he considered that the EMS could only be achieved if it, because of the Nazi legacy, was not primarily seen as a German design but as a French design and for that he was willing to offer concessions. This was especially so as it was his priority to make ERM as broad as possible and lock in as many competitors as possible in ERM to minimize the risk of competitive devaluations. This certainly meant to include Italy and the UK (Spiegel 1978c; Economist 1978e). In that context, it is important to note that it was France, not Germany, that vetoed the EMF in Brussels in December 1978 for what were highly conjunctural and in retrospect idiosyncratic reasons. In the wake of Gaullist domestic success in French politics, and in order to maintain his leadership over his domestic coalition, Giscard had to act tough on the European stage and prevent what was seen as concessions to the Commission and especially Italy. In fact, contemporaneous sources saw the outcome of this summit as a disaster for the EMS, a massive defeat for Schmidt, and it was supposed that it marked the end of the project (Economist 1978f; Spiegel 1978d).

The actions of the British Labour government are also worth closer examination here. Prime Minister Callaghan and Chancellor of Exchequer Healy oscillate on the issue, sometimes expressing aloofness and scepticism and sometimes outright enthusiasm. Having learned that the US was actually supportive of EMS, within the broader context of the Locomotive Conflict, Callaghan and Healy saw that this was an opportunity to bind Germany into a system of coordinated reflation, and indicated that the UK would join on the condition that the EMS would be based on a symmetric ERM (Economist 1978c). It seemed at times that a British-Italian alliance for such a design of the system was emerging (British Cabinet 1978; Economist 1978d; 1978g). However, other factors tended in the opposite direction, such as the humiliating experience of devaluations under the Bretton Woods fixed exchange rate system. The fact that Britain was facing an impending election made the issue acute. Also, the Cabinet and the Labour Party was deeply split, with the Treasury and the Labour left among others being against the EMS as a German mercantilist project. Ultimately, such opposition as well as Callaghan and Healy's own equivocations resulted in the UK not taking part and certainly would not serve a leading role. Kenneth Couzens' phlegmatic engagement with Clappier and Schulmann was symptomatic in that regard (Franklin 2013).

Italy was pushing most ardently for a more symmetrical ERM and above all redistributive EMF and made this conditional on its participation. It is also evident that Germany was willing to go some way to accommodate this without an Italian alliance with the UK (Economist 1978f). When France had vetoed EMF in Brussels, it was assumed that Italy would not participate. However, in a surprising turn, it chose to participate in no little part because of the pressure of the small market liberal Republican Party upon which the Italian government relied for its parliamentary support. Here, it was the supposed disciplinary neoliberal 'beneficial constraints' that were the main motivating factors and it was ultimately also such considerations that made the centre-right French government join the system (Economist 1978h, 1978i). While this could be seen as confirmation of a disciplinary neoliberal lowest common denominator, and certainly as an instrumentalisation of European monetary integration for such purposes, it should be noted that it was not integration as such but rather contingencies in domestic French and Italian politics that worked in this direction.

CONCLUSIONS

Strategic debates about European alternatives to neoliberalism hinge on whether the latter is structurally determined within the EU and EMU themselves. However, references to structure tend to be made implicitly and as an aside and without reference to rigorous analytical definitions. The problem is compounded by the fact that it is difficult to disentangle structure from the cumulative institutional effects of neoliberal agency. This paper suggested that the Locomotive Conflict and the formation of the EMS was a good case to analyse in that regard as it took place in the interregnum between the embedded-liberal Fordist era and the neoliberal era.

The paper, firstly, engaged with the not entirely straightforward exercise of analytically defining neoliberalism and suggested that Stephen Gill's conception of 'new constitutionalism' is central to European neoliberalism. Indeed, it was originally developed to make sense of the EMS – the object of analysis of this paper. Secondly, the paper engaged in an exercise of reminder of what is entailed in a socio-theoretical analytical definition of structure, pointing to its origin in social grammar, and its extreme ontological commitments. With regards to European political economy, it suggested a 'hard' structuralist position and a 'soft' position based on Hayek's idea of an 'inter-state federalism'. The variety of construals of possible European Monetary Systems at play in the wake of the Locomotive Conflict was not held to be compatible with the hard structuralist position. The soft position fared better but overstates the structural necessity in the politics of selection and dispersal of state preferences and capabilities and hence the obstacles to joint positive decisions. In principle it understates the extent to which West Germany was open to concessions that in the end were not pursued and the contingent reasons why France, the UK and Italy did not act on their opportunities. Once EMS took the form that it did, the window of opportunities did of course narrow. But that is another – familiar – story.

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