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ORIGINAL ARTICLE

Is European monetary integration structurally neoliberal? The origins of the EMS and the 1977–1978 locomotive conflict

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Abstract

The idea that European monetary integration is inherently neoliberal in its very structure gained prominence after the Eurozone crisis and has had considerable impact. The implication is that the only alternative to disciplinary neoliberalism in Europe is an exodus from EU institutions. This article contributes to the testing of such arguments through an empirical analysis of the origins of the Eurozone in the formation of the EMS during the 1977–1978 Locomotive Conflict. It finds that the variety of construal in EMS design and contingencies in the politics of selection between such designs do not accord with structuralist arguments.

Keywords European monetary system (EMS) · Eurozone · European integration · Neoliberalism · Transatlantic relations

Introduction

This article contributes to answering the question whether European monetary integration is inherently neoliberal in its very structure.[1] Eloquent voices arguing that it is, such as those of Werner Bonefeld (2012), Costas Lapavitsas (2012),

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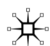


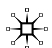
and Wolfgang Streeck (2013), gained increased traction in the course of the Eurozone crisis and increased disillusionment with the idea that the EU might evolve into a cosmopolitan social democracy (e.g. Habermas 2001, esp. 22–23). Eurosceptic structuralists pointed to the extent to which EU's monetary architecture corresponded with Friedrich Hayek's vision of a disciplinary neoliberal inter-state federalism, which confines EU-level economic governance to market-making and pre-empts welfare state developments. The question is though whether this outcome is structurally determined or the cumulative effect of agency that could in principle have been different if agents had acted differently. Despite making strong implicit claims about the relationship between structure and agency in European monetary integration, the above arguments are rarely based on a systematic interrogation of this relationship.

The question is important, because much of the debate over how one might address EMU's 'design failures' (de Grauwe 2013), pertaining not only to macroeconomics but also to social costs and a deepening democratic deficit generated by an increasingly 'authoritarian neoliberalism' (e.g. Nanopoulos and Vergis 2019; Menendez in this issue), depends on it. The urgency has not diminished after the COVID-19 crisis and controversies surrounding the EU Recovery Plan (e.g. Ryner 2021). If neoliberalism is inscribed in the very structure of European monetary integration, such fiscal-federal measures are bound to be at best temporary and increasingly made subject to IMF-style ex ante conditionalities and surveillance by executives without democratic legitimacy. In this reading, the National Recovery and Resilience Plans (NRRP), which governments must submit for approval in the European Semester in order to receive their Recovery Plan funds, are symptomatic and the only alternative to neoliberalism is an 'exodus from EU institutions'.

In line with central theme of this Special Issue, I approach this question of dominant neoliberal EU economic governance by focusing on historical roots. I seek to elucidate whether the structure of European monetary integration is inherently neoliberal by returning to origins and analysing the process through which EMU's precursor, the European Monetary System (EMS), was formed during the so-called Locomotive Conflict in 1977 and 1978. The initiative for EMS was taken when the West German government announced a policy U-turn at the April 1978 European Council Copenhagen Summit and began championing European monetary integration. This was in response to the intense pressure the US Carter Administration exerted on West Germany and Japan to share its role as demand-side 'Locomotives' for the world economy. The Locomotive Conflict took place at a juncture that historical institutionalists call a 'branching-point' (Hall and Taylor 1996, p. 942), when the path-dependencies of the previous 'embedded liberal' period had broken down without new 'disciplinary neo-liberal' ones having definitely been formed. As such, the Locomotive Conflict offers particularly felicitous conditions for overcoming the central problem in analysing empirically the interrelationship between structure and agency in socio-political order. At such 'branching points', it becomes possible to observe whether an order is indeed structurally determined or the cumulative effect of agency, whereas usually this is not possible as orders tend to manifest themselves as 'alloys' of the structural and agential (Hay 2002, p. 127).

Evaluating the evidence with the help of Bob Jessop's (2010) framework for critical policy analysis, and its concepts 'construal', 'variation', 'selection', and 'construction', the article argues that the formation of EMS does not accord with a structurally determined disciplinary neoliberal outcome.Hard structuralist readings, such as those of Bonefeld and Lapavitsas, would imply that the disciplinary neoliberal *construction* of the EMS arose from a single disciplinary neoliberal *construal*. This is not the case. West German Chancellor 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 'embedded liberal' Keynesian elements. A softer structuralist reading, such as that of Streeck, is by contrast compatible with this variation of construals and more plausible. But Streeck's argument that the *selectivity* inscribed in the process allows only for a disciplinary neoliberal outcome because states with diverse national lifeworlds face a joint decision trap, is ultimately not convincing. It is thrown into doubt because of contingencies in the deliberation over the *numeraire* of the Exchange Rate Mechanism (ERM) and the European Monetary Fund (EMF) and by the relative plasticity of the positions states took in the deliberation process. West Germany was much more willing to compromise to bring Italy and the UK into the EMS than what such a reading supposes, and a more Keynesian compromise was within the grasp of the UK, Italy and France. Such a compromise did not take place because of an idiosyncratic veto exercised French President Giscard d'Estaing—not Schmidt—at the December 1978 Brussels Summit. As Giscard's veto went against what France has sought to achieve ever since, it is hard to explain with reference to the structure of the French lifeworld.

The first half of the paper, composed of two sections, addresses key analytical matters. The first section specifies how and in what sense EU monetary and economic governance can be understood to be disciplinary neoliberal and it outlines the arguments that assert that this is structurally determined. The second part outlines Jessop's model for critical policy analysis, which is chosen because it is uniquely designed to facilitate a test of such arguments. No attempt is made to provide an exhaustive account of the literature on structure and agency, which rarely attempts to develop models for empirical analysis as there is widespread scepticism that the emergent properties of structure and agency actually manifest themselves so as to be available for empirical tests (Hay 2002, p. 91). Whilst this may be the case in principle, this article demonstrates that the particular 'branching point' conditions under which the Locomotive Conflict took place make it possible at least to critically interrogate structuralist-determinist positions such as those of Bonefeld, Lapavitsas, and Streeck. This is done in the second half of the paper, which first outlines the variety of construals of what would become the EMS as well as the politics of selection between these construals.



Disciplinary neoliberalism, European monetary integration, and three structuralist arguments

Defining neoliberalism is not straightforward. One trap is to equate it with the utopian thought of this or that theorist of the Mont Pelerin Society and to conclude that there has been no neoliberal era at all. Such a strict understanding loses sight of salient specificities of global capitalism since the 1980s. Another trap tends in the opposite direction and stretches the definition so far that neoliberalism becomes virtually synonymous with capitalism and therefore meaningless. David Harvey (2007, p. 9, 19) convincingly explains why this problem of definition arises: Neoliberalism is *both* a utopian project of realising theoretical designs *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 offers instrumental rationality to justify and legitimate whatever is required for the latter. The 'creative tension' between them explains the complex, variegated character 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. It entails 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, pp. 432–433). 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 advanced the neoliberalisation of European economy and society enormously. The reintroduction of unemployment as a disciplinary stick, the reduction in 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 and Cafruny 2017, ch. 5). The most extreme case is that of Greece, which during the Eurozone crisis became emblematic as a laboratory for Third World type structural adjustment policy within the EU itself (Kouvelakis 2018).

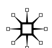
Stephen Gill made an original contribution to understanding of the central mechanism at play through his development of the Polanyi-inspired twin concepts 'new constitutionalism' and 'disciplinary neoliberalism'. These were originally developed through reflection on the institutional arrangement of the EMS. For Gill, new constitutionalism and disciplinary neoliberalism 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, pp. 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 1985). 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 in the system to pursue more expansionary policies, would result in counteracting increases in interest rates neutralising the initial stimulus. Informed by public choice theory, the arrangement was likened to Ulysses tying himself to the mast to resist the call of the Sirens (cf. Giavazzi and 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, mutually supporting currency swap networks, and an anchor currency governed through a Keynesian rationale.

The neoliberal character of this institutional arrangement is underlined by its striking resemblance with Hayek's vision in the 1930s of a European inter-state federalism, intended as a bulwark against the welfare state developments he warned against in the *Road to Serfdom.* For Hayek, the diversity of nationalities that were included in the arrangement would serve as a guarantee that the 'insulation from popular scrutiny or democratic accountablility' would not be breached as the member states faced what Scharpf (e.g. 2002) later would describe as a 'joint decision trap'.

> 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....The 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).

The formation of the EMU is generally seen as momentous and given the path-breaking nature of replacing national currencies with a single European currency, appropriately so. It is nevertheless important to underline the continuities between EMU and EMS and the extent to which the former evolved out of the latter. The Euro was an outgrowth of the EMS unit of account, the ECU. And, the ECB was modelled on the Bundesbank that had anchored the EMS. Seen from this perspective, the main change was that the 'power of exit' that was central to the EMS was removed. Consequently, disciplinary neoliberal actors such as the Bundesbank and the German Ministry of Finance became concerned 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 they insisted on what Menendez elsewhere in this issue calls the 'governance through numbers' (Dyson and Featherstone 1999) first through the Maastricht Convergence Criteria, then the Growth and Stability Pact, and more recently in the proliferated form of the European Semester and the Fiscal Compact.



But is European monetary integration structurally determined to operate in this disciplinary liberal manner? Werner Bonefeld's (2012, see also 2002) 'Open Marxist' account suggests that it is. 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, is the separation between different states in the inter-state system in the capitalist world market. From this perspective, Bonefeld categorically rejects the notion that European integration counteracts the latter inter-state separation in any meaningful way. To the contrary, European integration, taking the form of a Hayekian inter-state federation, is the quintessential neoliberal moment in European capitalism that secures all the above forms of separation. It is hard to avoid the reading that neoliberalism defines the very essence of European integration and finds this essential expression in new-constitutional competition policy and monetary policy. Neoliberalism is, in other words, the 'grammar' of European integration.

Costas 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 in his account from the structural logic of capitalist imperialist competition. More specifically, in this analysis it arises from German leadership over a European capitalist alliance in capitalist competition and the forging of '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, pp. 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. One might 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 seigniorage and 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 yet to win this coveted 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, as per the joint decision trap in an inter-state federation, when nation-states pull in different directions in the context of an integrated market and monetary union, it generates a quintessentially neoliberal outcome as the threshold for reaching a positive decision is beyond

the actors concerned. But why are nation-states bound to act in such disparate ways 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'. Developed in 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 diverse and nationally segmented in Europe and hence not conducive for overcoming the joint decision trap.

Construal, variation, selection and construction: a critical policy analysis framework

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 an engagement with structuralism. Echoing Jacques Lacan on subject-formation, construal addresses the 'existential necessity of complexity reduction' to satisfy the 'condition of subjects "going on" in the world' (2010, pp. 336, 337). In other words, social phenomena, including the formulation of crises, policy problems and solution may be real and objective, but they are only available to subjects through representations shaped by how these are construed. Indeed, subjectivity itself depends on such construals. *Variation* refers to the 'contingent emergence' of a range of possible 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. Neither version of Marxist theory—whether based on the necessity of separation of form, or imperatives of German-led imperialism—allows for variation of construals as European monetary integration is determined by any one of these 'primary positionings' determining state grammar. This is a rather 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 effective *construction*. After all, not the least the history of European integration is littered with construed policy 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 selection. Market-making 'negative integration' is more or less bound to generate disciplinary neoliberal outcomes through non-decisions in a Hayekian inter-state federation such as the EU. Disparate agents from different lifeworlds cannot achieve the requisite threshold for agreeing on joint decisions. This is a more plausible position but, as will be argued below, understates contingencies as evident in the formation of the EMS during the Locomotive Conflict.

The locomotive conflict and European monetary integration

The Locomotive Conflict occurred at a branching-point in the political economy of transatlantic relations. Since the end of World War II, these had been shaped by the transposition from the United States of Fordism, including a range of social technologies that integrated mass production and consumption. According to Aglietta (1982), central contradictions in this multileveled ensemble of technologies—'monopolistic regulation'—had become manifest by the 1970s. 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 their borders. This 'two-fold mediation' made balance of payments polarization between surplus and deficit countries endemic to transatlantic Fordism. The transnational politics of managing this polarization became central to socio-economic development (Ibid: 11).

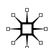
The causes to the unravelling of the 'Fordist golden age' management of this emergent polarization are well known. The overwhelmingly superior productive capacities of the US and its structural balance of payments surpluses had made it possible to credibly expand international liquidity through the Dollar-Gold standard under Bretton Woods. As the relative dominance of the US waned, 'Triffin's Dilemma' emerged, with a fundamental policy trade-off between maintaining the credibility of the value of the US Dollar as expressed in a fixed gold rate (the gold window) and supply of international liquidity required to maintain growth rates (Ibid: 12–16; see also e.g. Block 1977; Parboni 1981). In reaction to what it viewed as intolerable attempts to intrude on its prerogatives, the US closed the gold window in 1971, which started the transition from the Bretton Woods system to a flexible Dollar standard system. This decision intersected with declining productivity growth-rates as the Fordist factory system reached its frontiers, rising labour militancy, and dramatic price increases in the key input commodity of oil caused by OPEC. Together, these developments generated a crisis of profitability and stagflation. It is in this context that the Locomotive Conflict took place.

Starting with the inauguration of Jimmy Carter as US President, in January 1977 the Locomotive Conflict lasted at least until the Bonn G7-Summit in July 1978. It 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 with the UK and France in 'Group of 5' (G5) multilateral diplomatic framework that had been forged by the leading western states to manage transnational economic relations after the collapse of Bretton Woods. This alliance sought to persuade the 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 American reflation. Such compulsion would result from the deflationary pressure the counterpart appreciation of the Yen and Mark would

exert on the Japanese and West German export-oriented growth models and compel them to reflate. 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 West 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 EMS (Henning 1998, pp. 557–559).

The West German position is intelligible with reference to the particular European dynamic in the above transnational relations. An increasingly integrated European productive system started to form within the framework of the Bretton Woods regime, despite balance of payments polarization emerging very early after World War II. The so-called counterpart fund principle of the European Payments Union (EPU) virtually eliminated balance of payments constraints before currency convertibility in 1958—most notably for the deficit countries of Italy and France. This principle originated with the Marshall Plan, where recipients of shipments paid into the EPU an equivalent Dollar amount in non-convertible domestic currency that could only be used to buy goods or services in the recipient country. In the early post-war years, this became the main instrument for establishing intra-European trade and the net imports from the main surplus country—West Germany—would not have been possible without the principle of counterpart funds. Balance of payments constraints re-emerged with convertibility but did not become actual in until the late 1960s. West 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 West Germany itself. From this point on it became increasingly difficult to structurally couple virtuous links between demand and productivity growth in Europe (Halevi 2019a, b). Ironically, this happened during a phase of progressive reforms in West Germany itself (codetermination, reduction in worktime, and a rising wage share). These reforms were financed by the distribution of rents generated by high value-added exports. Bundesbank price stability policy served as an anchor of corporatist collective bargaining that was central to such distribution (Markovits and Allen 1984; Streeck 1994).

Initially, West Germany responded positively to the flexible exchange rate regime as it liberated Germany from the need to import American inflation. Germany was also sanguine when informal European exchange-rate cooperation—the so-called Snake—diminished to a small set of convergent partners. The pressure Dollar devaluation exerted on German exports during the Locomotive Conflict changed that and was the chief motivation for Schmidt's dramatic U-turn at the Copenhagen Summit on April 7 1978, where he proposed encompassing European Community exchange rate cooperation and started the process that would result in the launch of the EMS in 1979 (Spiegel 1978a, b).



Variety of construals

A hard stucturalist reading encounters immediate difficulties in explaining the formation of the EMS that starts with Schmidt dramatic U-turn. In such a reading there should be no variation of construals whereas accounts contemporaneous to events are rather striking in their report of their abundance. When ECOFIN tried to sort out what Schmidt's initiative specifically meant, *The Economist* (1978a) playfully invoked Luigi Pirandello. 'Nine finance ministers in search of an explanation', it quipped. When the July 7 1978 Bremen Summit decided to agree on an EMS by the end of that year (or 'union' or 'super-snake' as it was rather called), the Communique Annex outlining its design was notable 'more for its holes than its strings' (1978b). The range of design features considered is not consistent with a hard-wired neoliberal grammar. This is further underlined by the capital controls that still were in place in member states and by Commissioner Etienne Davignon's pursuit of several 'crisis cartels' and other protectionist measures in the management of surplus capacity in industries such as steel and textile (Buch-Hansen and Wigger 2011, ch. 4).

There were two key 'holes' between the 'strings' in the Bremen Summit Annex (European Council 1978; Economist 1978b), with major implications over what kind of EMS would emerge. The first concerned the reference currency of the Exchange Rate Mechanism (ERM). Would the ERM work by way of nominal cross-rates where the German Mark (DM) was bound to become the anchor, which would result in weak currencies carrying the burden of adjustment? Or would the Unit of Account, the ECU (European Currency Unit), become the reference currency? As it would be composed by a weighted basket, it would compel a more symmetrical adjustment burden. The Annex elided the issue by vaguely stating that the ECU 'would be at the centre' of the system. The second 'hole' concerned pooled reserves and possible transfers between the currency-zone members through a European Monetary Fund (EMF). 20 percent of the stock of member state official foreign reserves (mainly Dollars and gold) would be pooled in EMF in exchange for ECU's. But the Annex was silent on whether gold would be exchanged at the IMF official rate or the market rate. This would have major implications for the size of EMF 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) eventually agreed at 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, p. 21).

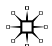
The Annex was brief and terse, but not drafted in a vacuum. It rather emerged from, and in different ways invoked, construals of monetary union and cooperation that had been made in the immediate years prior. These had been given impetus and momentum by the then new President of the Commission, Roy Jenkins. A

conference organized for the College of Commissioners at La-Roche-en-Ardennes 16–18 of September 1977 was important, for its two 'notes' on monetary integration. A more ambitious 'note' for monetary union was presented by Jenkins himself and his aide Michael Emerson (European Commission 1977b), the ideas of which subsequently were made public at the Jean Monnet Lecture in Florence and at a speech to the German Gesellschaft für auswärtige Politik (Jenkins 1977a, b). The other more pragmatic 'consideration' was written by Jenkins' predecessor Xavier Ortoli and Commissioner for Economic and Financial Affairs (European Commission 1977c). The two differed on whether European monetary integration should be incremental (Ortoli) or path-breaking (Jenkins). But on policy content, the differences between the two were marginal.

Drafted in a context of high inflation, there were traces present of what would become the disciplinary neoliberal content of the EMS and EMU in the Jenkins/Emerson note. Introducing a single currency issued by a Community-wide central bank was presented as an opportunity to break decisively with Europe's inflationary spiral and 'temptations' manifest for example in France and UK 'to start reflating before having mastered their inflation problems' (European Commission, 1977b, p. 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). Finally, the Jenkins/Emerson note saw the 'small country case' as 'illustrative' for the 'main argument', namely that '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 is not clear-cut disciplinary neoliberal. Equivocations are clearly intended to 'balance' the above with Keynesian rationalities. A 'common normative Community standard' would redress Germany's 'long hesitating over reflation with its inflation comfortably down to 3.5 to 4 percent' (Ibid: 3). Europe's investment problem is conceptualised in Keynesian terms as a demand-side problem. Whereas in the United States, '[Federal Reserve Chair] Mr. Burns has inflation more or less under control, Mr. Carter will use his budgetary power to sustain the recovery, and neither have to worry much about deteriorating balance of payments…German investors do not see the demand coming from the rest of Europe' (Ibid: 11). The note underlines the benefits of seigniorage with a common currency becoming a leading world currency (Ibid: 8–9) and it considers 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, 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 and outright distributive arguments are invoked by the Jenkins/Emerson note, the McDougall Report, as well as the closely related Marjolin Report (European Commission 1977a, p. 59–64; European Commission 1977b, p. 6, 13–14; European Commission 1975).

Ortoli's 'consideration' emphatically eschewed Jenkins/Emerson's federalist orientation. But substantively, it is strikingly similar in its blending of Keynesian elements with elements that would form part of the disciplinary neoliberal regime. His more modest proposal for objectives, considered achievable in five year, resonates with the European Semester. He proposed to '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, p. 5). But Ortoli also quite clearly endorsed a Belgian proposal that had already been put to the Council in order to enable member states re-entering The Snake without eliminating their Keynesian macroeconomic management capacities (European Commission 1977c, p. 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 should be made a reference currency facilitating symmetrical adjustment. Duisenberg had proposed a mutual assistance system and target zones (Mourlon-Druol 2009, p. 217). The Bremen Summit Annex clearly relates back to these initiatives.

The politics of selection

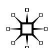
Whereas a hard structuralism based on 'primary positionings' falters at the point of construal, a softer structuralism is not as easily dismissed. In the soft version, structural power rather operates at the point of selection, where disparate states with distinct lifeworlds face joint decision-making traps. And indeed, events are not inconsistent with such an account. ERM was ultimately designed as a grid of nominal exchange rates de facto anchored by the DM and no meaningful EMF materialized at the final Brussels Summit in December 1978. This ensured asymmetrical adjustment burdens along disciplinary neoliberal lines. It is possible to see this as an outcome generated by the high thresholds set for joint decisions. Yet, contingencies cast significant doubt on such an interpretation. First, Germany was more open to compromise than is supposed in the conventional narrative that they were intent to

use asymmetrical adjustment burdens to impose trade multilateralism and dismantle socialist industrial policy in other countries (e.g. Germann 2014, p. 710–13). Second, the failure by the UK, Italy and France to seize on this opportunity to form an alliance and press for a more symmetrical system is more reasonably interpreted as a case of fumbling rather than the consequence of an overly forbidding threshold of diverse lifeworlds achieving a joint decision.

The fact that the Bremen Annex kept the question of ERM-design and EMF open is indicative of Germany's willingness to compromise. Notably, it was not drafted by ECOFIN or the Monetary Committee of Central Bankers, but rather by a special Working Group appointed by Schmidt, French President Giscard d'Estaing and UK Prime Minister James Callaghan. It seems Schmidt was determined to avoid the Bundesbank or the Ministry of Finance owning the process, and instead let his own economic adviser in the Chancellery, Horst Schulmann, represent Germany. By contrast, the French representative was the President of the Banque de France, Bernard Clappier, who also had served on the Marjolin Committee. The British representative was Kenneth Couzens from the Treasury. Couzens assumed not only a sceptical posture but 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 open-ended Annex was co-authored by Schulmann and Clappier (Mourlon-Druol 2012, p. 182–83).

It seems Schmidt led negotiations from the Chancellery because he did not consider the German position as impervious as is retrospectively supposed and there were broader political considerations that the Bundesbank or the Ministry of Finance would not adequately handle. First, because of sensitivities related to the Nazi legacy, he thought that EMS could only be achieved if it was not primarily seen as a German design, but rather a French one and for that he was willing to offer concessions. Second, he was also willing to compromise because of the priority of locking as many competitors as possible into ERM to minimize the risk of competitive devaluations. This certainly meant including not only France, but also Italy and ideally the UK (Spiegel 1978c; Economist 1978d).

At the time of the Bremen Summit, Schmidt was in fact favourably disposed to making ECU the *numeraire* of the ERM. He wanted to avoid the German Mark being forced to take on world currency store of value functions, which as the Locomotive Conflict had illustrated, had detrimental consequences for Germany's export-oriented growth model. The ECU was attractive therefore because it would take on that function instead (Economist 1978c, p. 50). The Bundesbank, on the other hand, had strong preferences for the currency grid system and eventually Schmidt was won over to this point of view. But this was not a self-evident outcome and the Bundesbank had to lobby to achieve it (Economist 1978c). On the question Germany's negotiating position on EMF, it was more difficult for the Bundesbank to dissuade Schmidt from agreeing to an EMF. 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 memorandum, 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 Bundesbank Governing Board with Schmidt in attendance. Schmidt explicitly raised the question of whether this was in good faith with the European partners but implicitly acquiesced with the Bundesbank position by concluding 'one can only do what one is able to do' (Deutsche Bundesbank 1978).

Even so, a more substantive EMF with considerable redistributive and reflationary capacities was not an impossibility, if a small group of powerful states who had been American allies during the Locomotive Conflict—France, and the UK with Italy—had managed to organize a common coherent position. Indeed, one could go so far as to suggest that they had to fumble to quite considerably not to avail themselves of the opportunity offered by German willingness to compromise. In fact, a substantive EMF was very much at the table at the Brussels Summit in December 1978. It did not materialise because of a last-minute *French* veto, not a German one. Giscard vetoed EMF because of highly conjunctural reasons having to do with Gaullist domestic success in French politics. Hence, in order to maintain his leadership over his domestic coalition, Giscard had to be seen as acting tough on the European stage and not making concessions to the Commission and especially Italy. Contemporaneous sources saw the veto not as a victory for disciplinary neoliberal design, but as a disaster that marked the end to the EMS initiative and a massive defeat for Schmidt (Economist 1978f; Spiegel 1978d).

The actions of the British Labour government are worth closer examination. Prime Minister Callaghan and Chancellor of Exchequer Healy oscillated on EMS membership, shifting between aloofness and scepticism and sometimes expressing outright enthusiasm. Having learned that the US actually was supportive of EMS, within the broader context of the Locomotive Conflict, Callaghan and Healy saw 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; 1978 g). However, other factors tended in the opposite direction, such as wariness of fixed exchange rate regimes with humiliations associated with devaluations under the Bretton Woods in not-too-distant memory. The fact that Britain was facing an impending election made that consideration acute. Also, the Cabinet and the Labour Party was deeply split, with the Treasury and the Labour left, usually taking diametrically opposite position, being united against the EMS, the latter led by Tony Benn who considered it a German mercantilist project. Ultimately, such opposition as well as Callaghan and Healy's own equivocations meant that the UK would not play a leading part and ultimately would not participate at all. Kenneth Couzens phlegmatic engagement with Clappier and Schulmann was symptomatic (Franklin 2013).

Italy was pushing most ardently for a more symmetrical ERM and above all a redistributive EMF and made these conditions for its participation. It is evident that Germany was willing to go some way to accommodate this even without British support (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. It was the

supposed disciplinary neoliberal 'beneficial constraints' that were the main motivating factors here and it was ultimately also such considerations that made the centre-right French government join the system (Economist 1978h, i). While this could be seen as confirmation of a disciplinary neoliberal lowest common denominator, it should be noted that it was not integration as such but rather forces 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 European integration, and especially European monetary integration, itself. However, references to structure tend to be made implicitly and as an aside 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 article suggested that the Locomotive Conflict and the formation of the EMS was a good case to analyse in that regard as it took place at a branching point between the embedded-liberal Fordist and the neoliberal eras.

The article began by defining neoliberalism with reference to Stephen Gill's conception of 'new constitutionalism' and 'disciplinary neoliberalism', which was originally developed to make sense of the EMS. Having pointed to its link to Hayek's vision of a European inter-state federalism, the paper then outlined three different accounts—those of Bonefeld, Lapavitsas and Streeck—arguing that disciplinary neoliberal monetary integration is a structural outcome. Drawing on Jessop's critical policy analysis framework, the article demonstrated that evidence from the formation of the EMS during the Locomotive Conflict does not accord with structuralist positions. 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 the obstacles to positive joint decisions. It understates the extent to which Germany was open to concessions and the contingent, if not outright idiosyncratic, reasons why France, the UK and Italy did not act on their opportunities. If disciplinary neoliberal motivations nevertheless were at play in the French and Italian decision to join, their sources were originally in domestic politics and not in European monetary integration per se. 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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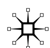

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