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The Political Dynamics of the *Vincolo Esterno*: the Emergence of EMU and the Challenge to the European Social Model

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Economic and Monetary Union (EMU), on the one hand, and existing models of labour market regulation and welfare provision within the European Union (EU), on the other, have been often assumed to stand in contradiction to one another. The re-appearance of EMU on the European agenda in the late 1980s, following the de-regulation paradigm of the single European market, raised widespread concern that it might serve as a ‘Trojan horse’ for a neo-liberal policy shift across EU states. The ‘sound money, sound finances’ principles underlying the particular design of EMU, strengthened in the Stability Pact of 1997, seemed to threaten traditional social models and the scope for national differentiation. By the time the new *Euro* currency was launched in 1999, the evidence to confirm or remove such fears was, in reality, limited and varied.

Introduction

As in other spheres, it has been difficult to distinguish the effects of ‘Europeanization’ in the monetary sphere from those of ‘globalization’, when both are perceived to entail a similar policy constraint, and also hazardous to judge the relationship between endogenous and exogenous pressures for reform. External pressures are mediated within distinct institutional settings, with different structural and agential roles and interests. Case study investigations highlight the varied picture. In short, the question of EMU’s general impact remains unresolved due, in large part, to the problem of providing evidence of direct causation, rather than incidental correlation.

The argument of this paper is that progress may be made by examining the more limited issue of *how* EMU has been used within different institutional settings: that is, how it has been deployed as a *strategic* lever for reform and as a stimulus to a shift of *norms* and *beliefs* affecting policy in contingent areas. Such an analysis draws on the growing literature on the theme of ‘Europeanization’, which typically examines the domestic impact of EU obligations (Börzel and Risse, 2000; Knill and Lehmkuhl, 1999; Caporaso, Cowles and Risse, 2000; Radaelli, 2000). Fundamentally, EMU may be seen as a system of regulation which proscribes certain (funding) options in contingent policy areas (‘negative integration’), but which prescribes policy models in only particular ‘core’ aspects of monetary policy (‘positive integration’). As such, much discretion remains over domestic policy choices set within the fiscal parameters of EMU and the Stability Pact. To Knill and Lehmkuhl, the question becomes one of how EMU redistributes "powers and resources between domestic actors, and hence challenge existing equilibria" (1999:5). The strategic position of domestic actors is altered, and the variations in the pattern of national adjustment are a question of the "varying domestic opportunity structures". Consistent with this perspective, the structural power of actors and institutions is reconfigured by the EMU constraint and the setting for the political contestation over labour market regulation and welfare provision gains new forms. Here the re-configuration is seen as potentially affecting both the *interests* and the *ideas* of actors.

This paper addresses two empirical questions that derive from this context:

- How has EMU been used by domestic actors and institutions to gain advantage in relation to policy outcomes affecting national social models ?
- What explains the variation in the use of EMU in this policy area ?

The use of EMU as an external source of domestic empowerment is a further manifestation of part of the original economic rationale advanced in support of the single currency. Economists, like Giavazzi and Pagano, argued the advantages of tying one's hand from a 'hard' EMS and the importation of central bank credibility (1988). In an extension of the same logic, Guido Carli – a central banker turned politician – argued that EMU was a *vincolo esterno* (external tie) to engineer otherwise elusive domestic reform in Italy (1993). Further, Dyson and Featherstone (1996, 1999) identified how particular actors in Italy were able to use EMU to gain advantage and secure major policy shifts: a re-structuring of power to the disadvantage of the profligacy associated with the *partitocrazia*.

The Conceptualization of the V*incolo Esterno*

The domestic use of external constraints in this fashion can have both a 'narrow' and a 'broad' interpretation. The former involves a process of differential empowerment resulting from the interests actors pursue and the impact of EU constraints upon how they are defined. The conceptual framework here follows that of rational choice institutionalism, which has been applied by an increasing number of authors (e.g. Scharpf, 1988, 1997; Tsebelis, 1994, 1995; Garrett and Tsebelis, 1996). The setting is, however, one in which interests and capabilities might be redefined across a 'two-level' bargaining structure (Putnam, 1988). The complex interpenetration between the 'domestic' and the 'European' is important here insofar as it creates strategic opportunities for actors to exploit. Whether and how the potential is exploited depends on the will (priorities, interests) and capability (strategies, cognition, institutional position) of actors competing within the particular domestic setting. The scope ('political opportunity structure') can be seen as circumscribed by domestic *veto points* and by the availability of 'politically integrated leadership' (Börzel and Risse, 2000; Héritier and Knill, 2000). EU policy inputs are "a political resource which may be exploited by some domestic actors in order to improve their relative positions in domestic political conflicts" (Héritier and Knill, 2000).

Consistent with the logic of the *vincolo esterno*, governments can identify strategic advantages in being bound by EU commitments (Grande,1995). Grande argues that governments can use the need to compromise and the temporal closure of the decision-making process for all but state actors at the EU level in order to gain autonomy with regard to domestic groups. He refers to a 'paradox of weakness' in which it is not the strong state, but rather the state that has lost part of its autonomy to a supranational decision-making system, which has gained power to pursue its own public interest against strong pressures from societal actors. Moravcsik (1994) pursued a similar line of argument. Integration redistributes political resources by "shifting control over domestic agendas (initiative), altering decision-making procedures (institutions), magnifying informational asymmetries in their favor (information), and multiplying the potential domestic ideological justifications for policies (ideas)" (1994:1; parentheses in original). In addition, binding EU commitments can enable governments to implement unpopular reforms at home whilst engaging in 'blameshift' towards the 'EU', even if they themselves had desired such policies.

The broader conception of the *vincolo esterno* is to place it within the constructivist perspective of the role and circulation of ideas in the domestic policy process, albeit straddled across the domestic and European contexts. By contrast to the rational choice approach, there have been few attempts to apply this framework to the EU. McNamera's (1998) study of the role of ideas in shaping the EMU agenda is a notable exception. She stressed how capital mobility and a neoliberal policy consensus had narrowed the options for governments. Indeed, "This policy consensus redefined state interests in cooperation, underpinned stability in the EMS, and induced political leaders to accept the domestic policy adjustments needed to stay within the system" (1998: 3). The consensus was an elite-level phenomenon: governments had "painted" themselves into a corner, but "it is important to remember that they have themselves wielded the brushes that put them there" (1998:178). More particularly, Checkel (1997) analyzed how international norms reached the domestic arena, with the effect of empowering actors. He distinguished between actors 'internalizing' international norms, adopting new values and interests, and actors opting to follow the new norms for purely instrumentalist reasons. One process involves 'elite learning', the other 'societal pressure'. The operationalization of this kind of distinction is problematic, however. Rather more helpful may be Börzel and Risse's notion of *norm entrepreneurs* mobilizing others to "redefine their interests and identities". This logic is reminiscent of that of Kingdon (1984) on policy entrepreneurs exploiting windows of opportunity in the policy process.

Interests and ideas are often seen as involving separate processes. But, as Börzel and Risse rightly stress, their two logics are not mutually exclusive: rather, they often occur simultaneously or sequentially. It is only at a theoretical level that they can be easily separated: for actors and institutions, in reality, they are part of a common whole. Evidence of their empirical separation is likely to be elusive.

The Use of EMU as a V*incolo Esterno*: Pre-Maastricht

EMU offered an unprecedented means within the then EC of utilizing an external economic discipline on domestic policy, and this offered advantages of privileging distinct institutional interests and policy ideas. In the Italian case already referred to, a small group of technocrats straddling the Tesoro, the Banca d'Italia, the Prime Minister's Office, and the Foreign Affairs Ministry steered the negotiating mandate towards an acceptance of a paradigm that would strengthen the power of monetary officials over policy, both as institutional actors and as norm entrepreneurs (Dyson and Featherstone: 1996, 1999). The IGC co-ordinators had a clear conception of their role in this regard: sharing values of foreign and monetary policy, and a common interest in their independence from political manipulation. The losers were intended to be the leaders of the *partitocrazia*, who placed political self-interest and patronage above the depoliticized management of 'sound money, sound finances'. Symbolically, the Maastricht Treaty was signed just months before the old party system collapsed in the elections of April 1992: Andreotti's pre-election fiscal laxity contrasted like the 'old' and the 'new' with the strait-jacket of EMU's convergence criteria.

In reality, the technocratic group was going with the grain of both globalization and earlier domestic reforms. EMU exposed the Italian sensitivity about staying at the core of Europe. Each of these factors provided the window of opportunity. Their room for manoeuvre was limited, however: EMU, like the wider global financial shifts, seemed unstoppable and largely uncontrollable by Italy. The task was to keep Italy on track with European and international trends. Prior domestic reforms had helped. Entry into the EMS in 1979 had already represented a shift away from competitive devaluation of the lira to a stable currency and price regime. This shift had been prompted by policy learning after the failures of the 1970s, a decade marked by low priority being given to inflation and weak external constraints following the breakdown of the Bretton Woods system. The shift would be consolidated by participation in EMU. The placing of EMU on the agenda after 1988 fostered two further critical shifts, however: the completion of the process of granting independence to the Banca d'Italia begun in 1980; and, the liberalization of the domestic financial market, which had started in 1981but which entered its most significant phase in 1987-88. The momentum of EMU had quickened the pace of the domestic reform in both areas. Moreover, the combined effect of these reforms was to strengthen the structural power of the Banca d'Italia over domestic monetary policy and to heighten the role of technocratic expertise over its management. The Italian state had undergone a process of 'hollowing out' (Della Sala, 1997).

The Italian case displays exceptional features. The consequence of the explicit need for a *vincolo esterno* is the exposure of domestic economic weakness and the concomitant credibility problem in EU negotiations. These latter features may indicate parallels elsewhere in southern Europe. Perez refers to the perception of domestic policy failure in the 1980s in Spain prompting attention to the advantages of external discipline. EMU fitted the domestic need for a *vincolo esterno* to secure disinflation after the breakdown in 1987 of the incomes policy agreements with the unions. Monetary integration became an indispensable weapon for the Gonzalez Government to circumvent union vetoes, as evident in the decision to bring forward the entry of the peseta into the ERM by one year to July 1989. More particularly, entry met the long-term preferences of the monetary policy establishment for greater discipline. Perez argues that the emergence of this set of preferences can be traced to a small group of reformist economists in the Research Service of the Bank of Spain in the 1970s. The group had opposed the *dirigisme* of the Franco era and had emerged (as 'norm entrepreneurs') to spread and nurture their shared orthodoxy amongst an influential group of younger economists. In consequence, the voice of the central bank became stronger and more assertive over economic and monetary policy. There are clear parallels here with the convergent attitudes of monetary economists and officials in Italy in the 1980s and 1990s.

EMU also provided the means by which key actors in Greece could realize their domestic self-interest and restructure the policy discourse (Featherstone *et al*, 2000). The Bank of Greece saw EMU as a vehicle for its own independence. The two relevant ministries - of National Economy and of Finance – found an opportunity for their own empowerment in upholding fiscal discipline over the manipulations and clientelism of party leaders elsewhere in the government structure. Greece had entered the EMU negotiations in a critically weak state: a letter from Delors in March 1990 to the Greek Government emphasized the gravity of its fiscal position, as did the emergency EC loan the following January. The Ministry of National Economy and its Council of Economic Advisers (SOE) grew in institutional importance, however, as the struggle for entry into stage 3 progressed to EU acceptance in 1999. Efthimnios Christodoulou and, more emphatically, Yannos Papantoniou became exceptionally strong ministerial figures by virtue of the EMU constraint. The scope for strong policy leadership was provided by the external imperative, and individual actors rose to the challenge, confronting the inertia and inefficiencies of the archipelago state machine. EMU was a harbinger of a critical juncture in subsequent domestic policy: a stimulus to continued discipline and associated reforms.

The common theme here is of domestic economic weakness prompting support for externally imposed discipline. The form of domestic policy leadership on EMU shows some variation across different institutional settings. The precise composition and balance of ministerial and technocratic leadership is not consistent: between ministries and central banks, state actors and wider policy communities. While the reform 'coalition' took a varied form, it had a common domestic enemy, however: the profligacy and clientelism of those interests hiding behind protectionism and political favour. As Boyer put it, for the South "monetary integration means economic modernization and political democratization" (Boyer, 2000: 86)

The policy style was in all cases elitist and relatively enclosed. A particular feature is the role of entrepreneurs isolated within a disparate and insular bureaucracy. The specific opaque and distant nature of the monetary policy sector found in most states is a contributory factor here, of course. But insofar as there are shared traits of the domestic state tradition in southern/Latin Europe – in essence, the difficulties of coordination across an archipelago state structure – the scope may be created for entrepreneurial leadership, by default, to compensate for the systemic weakness. A qualified parallel may be drawn with Schmidt's observation about France and the difficulty of implementing reform (Schmidt, forthcoming). The French State, she notes, is ideal-typically strong and societal groups weak. The effect is that a small, restricted governmental-technocratic elite often sets policy in an 'heroic' fashion, vulnerable to subsequent pressures of implementation. The ideal-model highlights an important condition of policy-making relevant to southern Europe, though its precise relevance will vary between cases. The attempts at pension reform may exemplify this pattern in several southern states (see below).

The common need for external discipline does not, by itself, provide a basis for constructing a cross-national coalition within the EU. In the EMU negotiations in 1991, Greece sought to co-ordinate the negotiating position and strategy of its southern European partners, plus Ireland: the 'periphery' (Featherstone *et al*, 2000). In reality, the coalition 'dare not speak its name': their interests proved too diverse and several delegations were uncomfortable with the shared identity. Italy, in particular, was embarrassed by participation in such a bloc, as she was struggling to sustain her credibility as a serious EMU partner with the other big EU states. The rest were unable to approximate their positions on anything other than the demand for a new Cohesion Fund. Even on the latter, success was limited. It came, not as a result of a new coalition of the periphery pressing the case, but as a result of a rather more traditional-style veto threat against the Treaty by the Gonzalez government in Spain. The structure of the EMU negotiations had imposed limits on this type of coalition: all sought the status of core EU membership, all needed special help and aid, and all were dependent on the EU's core to grant them both. The latter could divide and rule.

The use of EMU as a vincolo esterno prior to Maastricht is not only found in states exhibiting the need for external economic help. EMU offered other political and institutional advantages to bureaucratic actors seeking to defend their interests within the state machine. Thus, the espousal of the 'sound money' principles of EMU could mask interests of gaining power and influence. Most EC central banks lacked autonomy and EMU promised Bundesbank status to their personnel, wrapped within the supranational defence system of the ESCB/ECB. The Maastricht stipulations led to changes of this type in a majority of EU states, including those where central bank independence represented a severe contradiction of the entrenched state tradition (e.g. France). As already suggested, EMU also significantly upgraded the relative position of many finance ministries within their domestic governmental systems. Finance ministers and their officials positively sought the gain, as they also endeavoured to steer EMU down institutional routes at the EC level over which they held sway. Pierre Bérégovoy, in France, set the assertion of the primacy of domestic control over the EMU agenda by his finance ministry as one of his key objectives in 1990-91 (Dyson and Featherstone, 1999: 209). His was a proud ministry that had been obliged to cede responsibilities in other areas (privatization, financial markets) and Bérégovoy's domestic political credibility was at stake. In the two-level game of EMU, Bérégovoy forged a cross-national alliance with Theo Waigel in Germany to strengthen his institutional position, just as Jacques de Larosière did for the Banque de France in relation to the Bundesbank.

Moreover, officials in the French Trésor saw EMU as a means of empowering not only their institutional interests, but also their policy norms. The Trésor possessed a deep intellectual confidence in its ideas and in its special role as the 'brains trust' for French economic and monetary policy (Dyson and Featherstone, 1999: 82). EMU was the story of trying to sell its ideas to others. Though the context was significantly different from that existing with the *partitocrazia* in Rome, the logic was similar. EMU would entrench the norms underpinning the Trésor's cherished policy of the *franc stable* and the associated domestic 'rigour', with which it had long struggled, binding successor governments. Indeed, in an ironic twist of traditional French attitudes towards Germany, Bérégovoy sought to sell a deal on the start date for a single currency to Waigel on the basis that it would bind a future and possibly less reliable French government (Dyson and Featherstone, 1999: 203).

The pre-eminent role of technocratic experts in negotiating a sound and durable EMU on the basis of clear policy rules was an attitude strongly shared in Germany, in both the Bundesbank and the Finance Ministry. But, of course, the context was again different. They saw EMU as a matter of the rest of Europe adopting the existing German model. The logic of a *vincolo esterno* was a contradiction of some of the basic economic values espoused by German, and Dutch, officials in the EMU negotiations. The philosophy of ordo-liberalism stressed the obligation of a state to secure price stability. In doing so, an appropriate cultural context is set for economic and monetary policy. In other words, economic stability had to be built at home, not dependent on external intervention. German scepticism about the extent to which French policy had shifted from the tradition of *dirigisme* to a *franc stable* had been an obstacle to their bilateral agreement on EMU. More certainly, ordo-liberal attitudes meant that German leaders and officials were deeply sceptical of the will and capability of south European governments such as Italy and Greece to meet the obligations of EMU. Dutch officials shared this view. The Dutch drafts, in September and October 1991, on allowing a general 'opt-out' for states on EMU were motivated in large part by a desire in The Hague to withhold its commitment to participation until there was unambiguous evidence that all states had made the necessary adjustments to ensure the success of the new venture. Later, in 1995-97, Waigel and his officials repeatedly questioned the preparedness of the Italians – Greece was put aside as a near lost cause – to meet the convergence criteria. Indeed, persuading the German public to accept the single currency seemed to require that they be reassured that the Italians would not be involved.

By contrast the British and Danish governments resisted the binding commitments being advanced in the EMU negotiations. Both were sensitive on the question of preserving their sovereignty and both sought an 'opt-out' to be available to all governments. The Thatcher and Major governments shared much of the monetary and market-related philosophy promoted by their Dutch and German counterparts. Indeed, the proximity of their core values gave scope for a tripartite coalition on EMU (Dyson and Featherstone, 1999:766). What prevented this from occurring was the British stance on not ceding sovereignty and not giving a binding commitment to participation. The British were sympathetic to ordo-liberalism, they believed in good 'house-keeping' at home, but were opposed to it being imposed from abroad. The dominant attitude in Denmark was similar: greater discipline in monetary policy had been achieved since the 1970s, the kroner was part of the hardening ERM in the 1980s, but public opinion opposed supranationalism. Political leadership on 'Europe' was tightly constrained electorally, whilst policy-makers have had to manage the economic dependency of a small state and limit the costs of marginalization (Haahr, 2000). The dilemma was represented by the 50.7% majority against the Maastricht Treaty in the June 1992 referendum and the attempts of the Rasmussen government to secure ratification of a compromise treaty package in a second referendum the following year.

Issues of sovereignty and democracy have traditionally cast a shadow over the domestic debate in Sweden. Yet, at the start of the 1990s the Swedish Social Democrat government broke with the past and moved closer to the EC. Prior to accession, the

Social Democrat government decided in 1989 to complete the process of capital liberalization, in parallel to the EC's adoption of the same policy. The government "had, in effect, given up on the trade unions' ability to restrain wage formation in a tight, inflationary labour market, and now looked instead for an external anchor for the price system" (Aylott, 2000). The announcement the following year that Sweden would be applying for EC accession and ERM entry was seen by some Social Democrat leaders as "sending a clear signal to the parties in the domestic labour market" that they would not be bailed out by devaluation (Aylott, 2000). Instead, the private sector would feel the pressure and be more likely to tackle its flagging productivity growth. Both episodes indicate a transition in policy thinking from the traditional neo-Keynesian emphasis on full employment to one of prioritising price stability. Specifically, its implementation involved a rejection of national solutions to one of seeking an external anchor. This represented a momentous paradigm shift for Sweden. Fiscal discipline was also justified by reference to 'Europe'. The strongly pro-European ('bourgeois') government of Carl Bildt (1991-94) sought to curtail the soaring budget deficit in readiness for the EC and EMU entry it advocated. By the end of 1992, however, his coalition and the Social Democrats agreed to rule out entry into the first wave of EMU in order to secure support for EU membership in the impending referendum, which was held in 1994. The ERM crisis and the benefits of a looser exchange rate policy had shifted opinion away from EMU. Once inside the EU, the domestic political constraint had hardened and the government postponed its entry into the single currency indefinitely (see below).

The cases surveyed here suggest that the relevance of the *vincolo esterno* in Italy at the time of the negotiations on EMU was exceptional, but not unique. There are parallels evident in Greece, Spain, and France, though the precise context varies. What was distinctive was the attempt of technocratic leaders in each state to impose discipline on errant politicians. The condition for doing so may stem from shared traits in the state tradition: crucially, that isolated technocrats sought to overcome (on behalf of the collective good) what they saw as weak policy leadership. In other words, the distinctive institutional setting prompted the strategy. EMU was a means to an important strategic objective at home, one that could not be easily achieved by another means. However, those seeking a *vincolo esterno* were neither free agents nor in effective control. For Italy, Spain and Greece, the strategic opportunity arose from additional factors: the fear of exclusion from a major new step in European integration; a recognition that EMU was consistent with the demands of the wider global economy, to which adjustment was also necessary; and, a calculation that reform of the EMS and then EMU itself was unstoppable. In other words, the strategic choice was to go with the wider momentum, recognizing their peripheral status. For France, a state that had from the start seen itself as *the* leader of the integration process, the additional conditions were somewhat different. The fear was one of irretrievably falling behind its powerful neighbour, Germany, and of suffering the economic and monetary costs of its hegemony. The connection between EMU and wider global pressures was also made, though the former was seen as a means to establish a French imprint on the latter.

Elsewhere, others shared the motive in using EMU to impose discipline, but the perpetrators and their targets were different. The Dutch and German governments saw EMU as useful in giving weaker states a stark choice - between exclusion or reform – and then the Germans had to swallow their own medicine. More generally, EMU gave the strategic opportunity to central banks and finance ministries to strengthen their hold over domestic policy, at the cost of other parts of the government machine.

The choice of EMU as a *vincolo esterno* stemmed not only from strategic calculations. Rather, strategic interests were tied to a set of policy beliefs, both cognitive and normative. These determined the causal value placed on EMU as a form of external economic discipline to bring about the necessary domestic adjustment. Here, German ordo-liberal values contrasted with the search for credibility and stability on the part of some of her weaker partners, though the contrast was blurred by the unique sensitivity of the British and the Danes over sovereignty. France and Italy had made difficult shifts in domestic policy, but the sustainability of these shifts remained uncertain. The critical turn of policy in France amidst the currency crisis of March 1983 – when Mitterrand finally chose to keep the franc in the ERM rather than pursue the radical unilateralist option of *'une autre politique'* – came to represent the domestic victory of a set of monetary policy beliefs, identified with the Finance Ministry and the Banque de France. The victory placed France within a wider international policy community upholding 'sound money' and its associated disciplines. But the greater market reputation of the Bundesbank meant that within the ERM, French policy suffered from having a lesser credibility. Thus, EMU would overcome this deficit, whilst also securing the domestic shift. A similar logic was evident in Italy, as the Amato Paper on ERM reform in 1988 made plain. Outside the EC, the shift of policy in Sweden at the start of the 1990s – to seek an external anchor for price stability – also reflected a paradigm shift.

The Use of EMU as a V*incolo Esterno*: Post-Maastricht Social Models

The strategic purpose of empowerment from EMU has been exhibited by governments using it as a constraint to promote reforms over the domestic opposition of actors wielding a potential veto. EMU possessed crucial features in this regard: a temporal constraint, as states sought to qualify within a set timescale; a set of rational benchmarks, with the convergence criteria defining policy targets; pressure to comply, from 'peer' governments in ECOFIN and from domestic publics concerned with national pride and 'catch-up' with EU partners; a technocratic asymmetry, as state institutions possessed greater information on current trends and, in most cases, a greater expertise on how to manage and interpret policy; a normative foundation, with EMU as the central condition for states being at the core of a 'Europe' which often had large residues of public support; and, a distinctive type of policy process, as monetary policy was traditionally handled in a relatively closed policy community, seemingly opaque and rarefied to the wider public.

This latter aspect is in striking contrast to the politics of bargaining between government and sectional interests that conventionally marks the policy process when dealing with labour and welfare reform (Bonoli, 1997:113). In principle, EMU offered state actors a strategic tool the like of which had rarely been provided by an international body. But, as EMU entered the domestic politics of labour and welfare reform, the particular characteristics of the institutional setting and the effectiveness of political leadership would determine its potency as a stimulus to reform. In other words, both structure and agency have to be part of the explanation. The former involves the institutional design of particular provision: for example, Bonoli cites evidence to suggest that Bismarckian pension schemes (constituting the main source of income for their recipients) may encounter greater resistance to reform (as evident in France and Germany) than the reform of state pensions in systems where occupational pensions play a greater role (Britain, Switzerland) (Bonoli, 1997:114).

As already suggested, simple statements of cause and effect are elusive here. Correlation is not causation: timing consistency is not sufficient to show EMU led to labour and welfare reform. It is, however, the starting point. Where time consistency exists, then the association will be strengthened with evidence of a clear strategy to gain empowerment from EMU in this regard and to use it to provide a justificatory discourse for domestic reform. It may still, however, not be the *prime* lever or rationale: the role of EMU has to be weighed against other impacts. The perspective incorporates both interests and ideas.

In order to chart likely patterns, a brief survey of national cases is useful. The cases cited below cover different state types, policy models and EU membership experiences.

- Given the origins of the term vincolo esterno, it is appropriate to begin again with Italy. Here, the importance of the EU as a stimulus to domestic reform is often cited. Indeed, Ferrera and Gualmini (1999:42) have claimed that,

  Through an impressive sequence of reforms, this country has been able to put in order its battered public finances, to start an incisive modernization of its backward bureaucratic apparatus, its rigid labor market and its unbalanced welfare state, without jeopardizing social peace nor the overall competitiveness of its economy in the global context. The dynamics of internationalization and, especially of European integration, have been crucial in promoting this qualitative jump in terms of institutional capabilities: indeed, the Italian experience shows that internationalization may well be a solution, instead of a problem.

  With respect to pension reform, a series of measures were introduced after 1983, but radical shifts occurred in 1992 (the Amato reform) and in 1995 (the Dini reform), in parallel to the concern about participation in the EMU project. Exogenous pressures, Ferrera and Gualmini argue, have contributed to a ‘hardening’ of the Italian state, in terms of the strengthening of its capabilities (also Della Sala, 1997). This represents a notable shift from the position in the 1980s (Walsh, 1994). As elsewhere, concertation with the social partners has been reinforced. More generally, a crucial part of the domestic adaptation has been at the level of learning, both cognitive and socio-political, flowing from technocratic and political circles to some sector-specific policy networks and to the social partners. EMU has been a key exogenous pressure stimulating such changes, albeit indirectly and in combination with other indigenous factors (Giuliani, 2001), and technocratic communities have been a major conduit in this regard. The Onofri committee, for example, established by Prodi in 1996, to examine how social spending could support macroeconomic objectives, assigned special importance in its report to the power of EMU to challenge the ‘protected’ interests of the social state.

As Della Sala argues, EMU was seen in Italy as a means to political modernization and democratization. Even the Left could embrace the reform momentum of EMU: privatization and pension funds became a means of democratizing the economy and taking power away from closed private interests and political oligarchies. EMU was a crucial trigger to reform of the Italian social state. Moreover, it created opportunities and incentives to political actors across the system, such that few were left to defend the status quo.

- The relevance of EMU as a vincolo esterno is also shown in other southern European states. In Spain, changes to the contributory pension system began in 1985, but reform was only started in earnest in the run-up to EMU (the so-called Toledo Pact of 1995 signed by the social partners and the PSOE government, and the move to its implementation agreed under the successor conservative government in 1996). In establishing an agreement to limit the cost of the system, the government used EMU as a justification for restricting non-wage labour costs in order to maintain competitiveness in the Euro-zone. The acceptance of this constraint by all sides meant that a striking consensus was achieved, unlike in France and Italy.

  Soon afterwards, a decisive shift towards labour market reform was achieved in Spain by a three-year social pact signed by the UGT (socialist) and CCOO (communist) unions with CEOE (employers federation) and CEPYME (small businesses) in 1997. The main thrust of the reform was to reduce the cost of workers on permanent contracts being dismissed, and it was intended to tackle the dualism in the labour market between those on permanent and those on fixed-term contracts. Again, the acceptance of the EMU constraint on labour costs played a major role in easing the reform.

- In the case of Greece, like Italy, the connection between EU constraints and domestic adaptation has often been made: the EU has loomed large as a domestic stimulus (Diamandouros, 1994; Ioakimidis, 1998; Lavdas, 1997; Pagoulatos, 1996; Featherstone, 1998). Moreover, public support for Greek participation in a deepening process of European integration is amongst the highest to be found in the EU. Against this background, much political capital was invested by Premier Costas Simitis and the Minister of National Economy, Yannos Papantoniou to have Greece qualify for the single currency by 2001. Their domestic credibility was at stake. With the huge fiscal imbalances sustained by the Greek state, the stimulus of EMU to pension reform was evident in the explicit statements of the government. Yet, the stimulus was dissipated by the entrenched opposition of sectoral interests and the strategic weakness of key actors, not least a supportive technocratic community or advocacy coalition (Featherstone *et al*, 2001). Pension reform has been slow and modest, by comparison to Italy, as a result.

  The need for reform has been apparent to many, however. The severe weakness of the Greek economy at the start of the 1990s represented a critical juncture for the Greek state. The clientelistic profligacy of the ‘party-state’ – which had risen to new heights under Andreas Papandreou – was confronted by the EMU prospectus, with its tight fiscal policy requirements. The fragmented state pension funds were caught within these conflicting pressures, but also threatened by a demographic ‘time bomb’, as elsewhere. Early reform of the pensions system was limited: a small-scale reform (the Souflias law) in 1990 was passed as an emergency measure, and a more substantial reform in 1992 had been greatly watered-down in the face of stiff union opposition and internal party dissension. The pension problem remained: it sustained gross inequalities of provision and bureaucratic inefficiency, which conflicted with the 'modernization' programme of the new Socialist premier, Costas Simitis. The latter soon ordered a report from a technocratic committee, headed by Yiannis Spraos. The need for reform in the context of the EMU entry objective was stressed. Its 1997 report was fiercely opposed by those with vested interests in the status quo. Crucially, government leaders quickly distanced themselves from it and there was little support from relevant policy experts. Reform was postponed. The external empowerment of EMU had been blocked by domestic veto-players and by the political weakness of the technocratic community.

There are clear parallels here with the case of France in 1995, to which we shall turn shortly. The gestation of the Spraos Report was closeted, corporatist-type negotiation was absent, no effective advocacy coalition was available to offer support, and union opposition was intense. Yet, there are also differences with the French case: in Greece, there was a strong residue of public support for 'Europe' and the link between EMU and pension reform had been made. In the event, political leaders were not prepared to take risks in the face of union opposition, ahead of elections.

- In Belgium – another state with parlous finances during and after the EMU negotiations – EMU has been used as a stimulus to domestic reform. As Pochet notes, political elites in Belgium – perhaps more than their counterparts elsewhere - have long used 'Europe' as a pretext to force the adoption of domestic solutions. Already in the 1980s, the discipline of the 'hard' ERM had encouraged domestic policy shifts. Pochet argues that EMU was a catalyst for the attempt at signing a new social pact after 1990. When these attempts failed, a new Competitiveness Act was adopted, which strictly limited wage increases and, in the name of EMU, imposed controls on collective bargaining. The government also used EMU to justify budget reductions and the reform of the social security system.

- In France, shifts in social policy began well before EMU. Pension reform seemed more intractable, however. Between 1985 and 1993, at least seven official reports on the subject were produced making roughly the same recommendations (Bonoli, 1997: 115). The main parties accepted the need for pension reform, but little was done. In 1993, Edouard Balladur successfully negotiated a reform of the largest pension scheme, the *régime général*, which covers private-sector workers in industry and commerce (Bonoli, 1997:112). The politics of cohabitation had encouraged a consensual approach. With most recognizing that wider reform was needed, the *Plan Juppé* of October 1995 was perhaps the most significant proposal for the reform of welfare provision since 1981. The package covered health insurance and health care, pensions, and control over spending. Juppé's strategy, however, undermined the reform: the package was hatched from a small technocratic group and presented effectively as a *fait accompli* to interested groups. Whilst not alien to the French state tradition, this approach contrasted with the Balladur reforms of 1993 and ignored the potential veto-power of major sectional interests. It also provoked public anger about the policy style, at a time when polls had indicated (at least superficial) voter acceptance of the need for reform. EMU was a crucial stimulus to its origination and timing – given the entry constraint on budget deficits – as both Juppé and Chirac made clear. Indeed, the plan signalled that President Chirac was intent on keeping to the single currency timetable (Howarth, 2000). The closeted manner of the plan's origination meant that the communicative discourse would be crucial to its success (Schmidt, forthcoming). However, the normative foundation was weak: whatever the depth of public acceptance of the need for reform, it was not easily reinforced by 'Europe'. The French public had not been primed to support such reforms in the name of 'Europe'. Chirac had previously indicated a soft transition to EMU and had seemingly equivocated over the timetable commitment. The public reaction was fierce, with Juppé politically defeated (though the bulk of the plan was eventually enacted). In sum, EMU had not served as an easy off-the-peg justification and Juppé had proved politically inept. His successor, Jospin soon sought to change the discourse, by enveloping EMU in a wider agenda of protecting employment.

- The German case was destined to be the least likely to provide evidence of EMU serving as a lever to domestic social reform. EMU provided opportunities to the social partners: the DGB sought EMU as a means of weakening the Bundesbank, the business community as an opportunity for labour market flexibility and a means of getting rid of an overvalued DM. But, the German labour regime was shaped by institutionalized monetarism long before EMU re-appeared. The adaptational pressure was not expected to be as significant as elsewhere. The Kohl Government had seen EMU as exporting discipline. These attitudes were turned upside down, of course, when the strains of adjusting to domestic unification led Germany to veer away from meeting the tough convergence criteria it had largely defined earlier. As Siegel points out, the Kohl Government was trapped by its own previous tough stance and this exposed its difficulties in meeting the deficit rule. EMU was used after 1996 to justify welfare reforms and cuts. Now ordo-liberals, like Otmar Issing of the Bundesbank in 1996, called for the disciplinary effect of EMU to be preserved, as did Wolfgang Schäuble, the CDU parliamentary leader, the following year. The key point is that unification initiated the reform pressure, whilst EMU amplified the stress emanating from unification by defining a budget constraint.

- The link between EMU and social reform is even more distant in the case of The Netherlands. Here, welfare state reform and economic liberalization were underway well in advance of EMU. 'Europe' has seldom been seen as a prime stimulus to domestic reform and EMU has played no significant part in the justificatory discourse for recent social reform. The consociationalism associated with the 'polder model' (of social and economic liberalism) has been strengthened independent of EMU.

- The scope for domestic leverage from supranational commitments has been minimal in Denmark, given public opposition to supranationalism. This opposition has prevented Denmark from adopting the single currency thus far, though policy-makers have had little difficulty in following the disciplines associated with the Stability Pact for sound finances. A long-term concern in Denmark has been of the narrowness of the EMU project: sustaining employment should be of equal importance to price stability and a sub-committee of ECOFIN was suggested with a remit to secure this. Of more relevance than

EMU as a stimulus to domestic retrenchment of welfare benefits, has been the Danish concern of a more general EU threat to her existing high levels of provision. Thus, despite wider concerns on sovereignty, the Social Democrats pressed for majority decision-making in the Council of Ministers on 'social conditions', as well as environmental protection and health, with a view to 'levelling-up' standards (Haahr, 2000).

- Further contrasts may be sought from the Nordic states that joined the EU *after* the EMU agreement had been reached. Again, the domestic context is different here with respect to the development and support for distinctive national models of labour and welfare policy.

  In Sweden, at the start of the 1990s, the decision to seek EC entry (allied to capital liberalizaton and ERM participation) had been used as an external anchor to better secure price stability and revive labour productivity. After accession, however, domestic political conditions had changed and this ruled out the option of using EMU entry as a pretext for further policy shifts. Divisions within the ruling Social Democrat party (SAP), a change in the latter's relations within the party system, and opposition from the grass-roots provided a clear party political obstacle to any direct attempt at external leverage via EMU (Aylott, 2000). The Persson Government postponed a decision on participation in the single currency, fearing the domestic political cost. The decision also goes with the grain, however, of the belief in sovereignty and democracy, so deep-rooted in the Swedish social democratic project of 'welfare nationalism' (Elvander, 1994 –in Pekkarinen). In particular, the traditional belief in *folkstyre* ('popular steering') is the polar opposite of the *vincolo esterno* logic.

- There is an interesting contrast here with the case of Finland, a country that has often seemed to follow the lead of Sweden but which decided to diverge from it and join the first wave of states to adopt the Euro. Finland had followed Sweden in applying for EU membership in March 1992. Yet domestic conditions in Finland soon diverged from those of Sweden: the party system constraint was more conducive to EMU entry; in particular, the Social Democrat leadership was firm and consistent in its pro-European line; public opinion was more permissive to elite leadership; and the *Markka* remained outside the ERM until late 1996. The political discourse more readily accepted that EMU membership meant that Finland would be at the EU's 'core', a condition felt to be very much in her security interest (Pekkarinen, 2000).

  Moreover, economic conditions in Finland were markedly different: the Finnish model of social corporatism had traditionally prioritised supply-side economics to maintain export-competitiveness (over and above Keynesian demand management); this had not overcome high levels of cyclical volatility (historically, a consequence of the undiversified structure of the economy); indeed, the experience of the economic depression of the early 1990s – the deepest of the twentieth century for Finland – had questioned the value of monetary policy autonomy; and, added to this, the recognition of the instability that exists with speculative capital flows in a deregulated financial market, led to the conclusion that Finland needed to be tied to a large currency area and single currency, in order for it to sustain monetary stability (Pekkarinen, 2000). Consistent with this logic, EMU was seen as offering, *inter alia*, a stable anchor for 'responsible' wage bargaining.

Yet, more generally, EMU does not appear to have been used as a strategic tool by economic elites– or a *vincolo esterno* – to give independent justification for otherwise difficult domestic reform. By contrast to Sweden, the logic was to see EMU as part of a necessary process of external adaptation, rather than as a block to *folkstyre*.

The cases briefly surveyed here provide contrasting evidence with respect to the use of EMU (after Maastricht) as a stimulus to the reform of domestic social models. There is some consistency in the timing of the EMU entry constraint and reform initiatives in the cases of Italy, Spain, Greece, Belgium and France. However, in Germany, the EMU constraint became relevant rather late and reinforced that stemming from German unification. In Sweden, early reforms were linked to EU entry but then public sensitivities and changing conditions in the party system led to a postponement of EMU participation and it thus became less relevant as a lever. In Finland, EU and EMU entry were seen as tied together, both received support, but there is little evidence of EMU being exploited as a separate stimulus to reform. In the Dutch case, social reform and EMU appear as independent processes with little time consistency between them. In Denmark, public sensitivity on national sovereignty greatly limits the scope for stimulating domestic reforms in the name of 'Europe'. If a pattern exists here, it appears to be one rooted in geography, setting, and perhaps fiscal condition.

In Italy, Spain, Greece, Belgium and France political leaders made an explicit link between social reform and EMU. Clear attempts at blameshift were evident, in order to overcome likely domestic opposition. Similarly, the discourse on reform justified change by reference to the logic of EMU and the importance of remaining at the core of 'Europe'.

However, in the cases of Greece and France the implementation of reform faced severe domestic opposition. In Greece, pension reform was thwarted in 1997 by the strength of union protests and the alarm of those with vested interests in the status quo, the caution of a government facing new elections, and the weakness of anything akin to a technocratic advocacy coalition or policy community to support reform. Pension reform was shelved, and the government relied on other means to EMU entry. Yet, all knew that wide-ranging pension reform had to come soon. In France, the public protests against pension and welfare reform in 1995 were far stronger than in Greece in 1997. Chirac was humbled, Juppé soon brought down. Paradoxically, however, much of the original Juppé package was implemented, despite the political protests. The difference of outcome between France and Greece may be explained by reference to a 'strong' state/'weak' state contrast. In both states, there was at least an implicit recognition by major party leaders of the need for reform. In France, however, technocratic policy innovators in different networks were rather more prominent in the reform process than in Greece, making it stronger. In Greece, such innovators were swamped by the clientelistic 'party-state' culture and lacked sufficient profile and autonomy. This appears a crucial contrast between Greece and Italy also.

Pochet argues that EMU was used as a *vincolo esterno* by Belgian governments to strengthen their hand in relation to domestic social demands. He identifies two main effects of EMU: elite empowerment and 'technocratization'. Firstly, EMU facilitated a new type of political leadership, based on the prime minister, the central bank and the leader of the Christian trade union acting in concert to steer adaptation and weaken domestic opposition. Secondly, EMU became a smokescreen, shifting the discourse in a more technocratic direction. Pochet cites Denayer's (1996) observation that changes were being imposed from outside, with the domestic objectives of reform being hidden, and debate being depoliticized. A benchmarking system was established by which decisions on wages and welfare were to be made by reference to an external standard: defined in terms of the performance of the Dutch, French, and German economies. The policy style has thus changed: a new kind of technocratic rationality has entered the space previously dominated by the pillars of the party system and regional communities.

The Belgian case suggests a further effect of EMU as a domestic lever: that on the pattern of relations existing between the social partners. In Belgium, according to Pochet, EMU gave an additional and significant stimulus to the state's role in a developing tripartite management of the labour market. The federal level enjoyed a rare boost. This has not been a process of centralization so much as one of the development of a structured dialogue respecting a hierarchy of tasks. An important aspect of this structure is the proliferation of semi-independent expert bodies, such as the Higher Employment Council, the National Employment Council, the Higher Finance Council, the Central Economic Council, and the Planning Bureau. A network of reports makes the debate more technocratic and rational.

In the Spanish case, EMU has been linked to a re-centralization of the wage bargaining process. The social partners (the UGT and CCOO unions with the CEOE employers and CEPYME small businesses) agreed a social pact (Interconfederal agreement for Stability of Employment) in April 1997. This covered a reduction in the dismissal costs of workers on new permanent contracts; an extension of labour regulation to new sectors; and, most tellingly, a re-structuring of the collective bargaining system. The latter expanded the role of national-sectoral bargains, while leaving other aspects to be settled by lower bargaining units. The move to centralization contrasted with a 1994 law, which had given an impetus to decentralized bargaining. National bargaining was seen as a crucial adjustment mechanism for EMU, to maintain competitiveness. EMU has thus strengthened 'corporatist' tendencies, though its effect was to reinforce a wider transformation already evident domestically.

The re-centralization of bargaining is not unique to Spain. The Spanish agreement of 1997 closely resembled the 1993 agreement on collective bargaining reform reached between government, employers and unions in Italy (Perez, 2000). Both agreements attributed distinct roles to different levels of bargaining, with the purpose of achieving greater national coordination, though in the Spanish case such changes were not mandated, given the confederal nature of the employers' organization. The philosophy behind the agreement showed some consistency with the Belgian shift to a more structured dialogue.

It would be misleading to suggest that the adjustment to EMU has deepened conflict between social actors and led to more adversarial policy styles. The case of the Juppé Plan of 1995 elicited severe reactions and mass protests. Yet, in Spain: the Toledo Pact of 1995 and the 1996 agreement on pension reform were reached without any of the bitter confrontations that accompanied similar efforts in Italy and France, and a strong consensus marked the changes made in labour regulation and collective bargaining. Moreover, in existing consociational systems, like The Netherlands, EMU-related changes have not disturbed the domestic tradition of social bargaining, rather they have been enveloped by it. In short, there is no simple relationship here between consensus-formation in small states in the face of external challenge – the Greek and Spanish cases are polar opposites here - nor one of a core-periphery contrast, given the protests in both France and Italy.

Conclusions

The brief comparative survey presented here indicates how the scope for domestic leverage from a supranational commitment like EMU is determined by forces within the national institutional setting. At a conceptual level, the vincolo esterno may be deployed as a ('narrow') instrumental means to overcome veto-points and to create a different political 'opportunity structure' (Knill and Lehmkuhl, 1999). The usage is dependent on the will and relative capabilities of domestic actors, which are regime-dependent. A broader usage involves domestic elites 'internalizing' the norms and values of EU policies, shifting prevailing beliefs and 'frames'. Both 'strategic' usage and 'norm shift' are to be seen in their institutional context: circumscribed by the existing policy regimes (regulatory and institutional conditions), prevailing policy beliefs, patterns of interest mediation (such as neo-corporatist concertation), party competition and interests, and public attitudes to reform. In practice, the distinction between 'strategic usage' and 'norm shift' can be blurred. But the distinction helps to contrast the nature and extent of domestic adaptation to EU commitments (Checkel,1997; 1999).

The foregoing survey indicates that the instrumental use of EMU as a vincolo esterno – to secure domestic policy advantage – is a more likely strategy in those states that have not fully 'internalized' the norms and values associated with the 'sound money, sound finances' paradigm of EMU. A strategic lever is a welcome tool in the relative absence of a shift of norms and beliefs. Moreover, the need for such usage is greater in those states that are most divergent from the convergence criteria (and the later Stability Pact), but in which key actors are committed to fulfilling European obligations. Such conditions create an opportunity structure for actors to exploit EMU as a vincolo esterno. The prevailing policy beliefs in Germany, The Netherlands, and Denmark – together part of the 'DM-zone' - were closer to the demands of EMU than were those in Belgium and southern Europe. As such, there was less need to use EMU as a domestic lever to reform. In France, the shift to the disciplines of 'sound money' under the ERM had not previously bitten into welfare politics: the Juppé Plan was evidence of the perceived EMU constraint. Moreover, institutional structures and routines with strong domestic roots prevent easy adaptation to exogenous pressures (Di Maggio and Powell, 1991; March and Olsen, 1989). In Denmark and Sweden there was a further resistance – in the form of a sensitivity about sovereignty and the defence of existing policy models – to the use of EMU as a domestic lever.

The strength of EU commitments as a *vincolo esterno* for domestic actors is affected by the form the latter take: EMU was an indirect, negative pressure on social models, allowing much discretion to be determined by political competition. Thus, EMU encouraged a reform direction: it did not determine the choice or content. Moreover, the relative importance of EMU as a stimulus to reform has clearly varied between states.

The utility of EMU as a vincolo esterno for domestic reform is circumscribed by both structure and agency, which are mutually defining. The relevance of the institutional setting, and in particular the number of veto-points, is a clear structural constraint on 'reform-capacity' (Héritier and Knill, 2000). Yet, reform momentum also needs leadership: either as agents pursuing strategic interests with a view to re-structuring domestic power, and/or as 'norm entrepreneurs' helping to shift the prevailing beliefs in a particular direction (Börzel and Risse, 2000). Advocacy coalitions or policy networks may strengthen political leadership and establish reform-capacity (Sabatier, 1998). It was the relative absence of such phenomena that helped to explain why the attempt at pension reform failed in Greece, but succeeded in Italy. But an 'integrated political leadership' (Héritier and Knill, 2000) may also be provided by the form of social mediation - for example, a corporatist consensus helped to deliver pension and labour reform in Spain – and by consociational party systems – as in the Nordic states, albeit with different outcomes on the EU and EMU.

A long-term contrast is evident in the domestic usage of EMU between two groups of states. The first is composed of Italy, Greece, Spain, Belgium and France; the second by Germany, The Netherlands, Denmark, Sweden and Finland. The contrast is broadly a north-south one, and the political opportunity structure to exploit EMU as a vincolo esterno appears linked to the pattern of domestic political development. To southern states, EMU was perceived as a stimulus to 'modernization'. In the early phase of EMU, technocratic leadership in Italy, Greece, Spain and France sought to use it as a lever to domestic reform, curtailing the indiscipline and clientelism of party politicians. The strength of EMU as a *vincolo esterno* in southern states is reinforced by a self-imposed political constraint: the fear of exclusion from the EU's 'core', in the context of a rapidly deepening and widening integration process. Mass publics seek that their states remain full EU members: political leaders are expected to deliver this objective. Yet, EMU had the potential to reinforce cleavages in these states based on contested notions of 'modernization' (Featherstone, 1998; Diamandouros, 1994), with traditional 'internal protectionism' confronting modern 'external liberalism'. EMU was a critical juncture in the political development of the south: it anchored them to a powerful new policy discipline and stimulated wider political changes. In some states, like Italy, the response to EMU reflected the existence of the 'institutional stabilizers' of a new macro-economic regime underscored by technocratic elites, accelerated policy learning, and new styles of policymaking (Ferrera and Gualmini, 1999:43). In Greece and Portugal, the shift of policy regime seemed less secure.

The general impact of EMU on domestic social models across the EU remains unclear. The opportunity to use EMU to secure strategic interests and/or promote shifts of policy ideas is more evidently linked to the type of conditions prevailing within domestic settings. EMU as a *vincolo esterno* is tied to the pattern of political development and state tradition; the compatibility of appropriate policy beliefs; support for 'Europe'; the record of economic discipline; and the will and capability of actors to engineer compliance. These conditions are distinct and are most closely associated with 'Latin' and southern Europe. The analysis confirms the asymmetries involved in the EU integration process – not least those stemming from the variation in institutional setting - and these set the scope for actors to deploy the EU as a tool in domestic politics. The intensification of EU policy commitments is likely to strengthen these asymmetric features across states and sectors, differentiating the game of EU politics.

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