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A Second Look at the Maastricht Treaty

The Maastricht Treaty aims to define the path towards a single currency in the European Community by the end of the century. The following article analyzes the strategy laid down in the Treaty in the light of recent events, highlights its internal contradictions and the obstacles it is likely to meet, and assesses its chances of success.

If the European Community manages to create a single currency and sustain its use the Community will inevitably develop an entirely new identity. A Community with a single market at its core can remain just a community of sovereign states, but a Community with both a single market and a single currency will eventually have to give rise to a new social organization, reshaping the behaviour of enterprises, of jurisdictions, and ultimately also of normal citizens. This is in short both the aspiration and the fear in relation to the Maastricht Treaty: a new European Community.

The way chosen in Maastricht, which it was hoped would lead towards such a new European Community is at first glance technically feasible, but at second glance it turns out to be politically too unstable and too fragile, perhaps even unsustainable and downright dangerous. The European Community as it exists today might well become jeopardized, starting with the EMS and finishing with the not yet even completed internal market. The strategy must therefore be changed if the objective is still regarded as a valid one.

The introduction of a single currency together with the creation of the necessary institutions is the overriding objective on the agenda of the European Community for the final decade of this century. The Maastricht Treaty, agreed upon in December 1991, signed in February 1992 and until now ratified by 11 out of 12 Member States was concluded in the hope of achieving this objective by 1999.

The Treaty consists of two elements, a first one that might be labelled the “Maastricht deal” and a second one that might be labelled the “Maastricht way”. The deal is the complex give and take between Member States that made them sign and perhaps ratify the Treaty. The way is the strategy agreed upon to be pursued to achieve the introduction of a single currency by 1999 at the latest.

The Maastricht Treaty aims at introducing a single currency in the context of an Economic and Monetary Union (EMU), embedded in a European Union (EU) with a much wider political scope. Given the Member States’ different political, economic and social priorities as well as perceptions, a single currency could only be introduced on the basis of a broad political package which reconciled different priorities and eased different perceptions. Most important, this package had to assure that the costs and benefits, but also the risks, were balanced out and equitably distributed during the run-up to the introduction of a single currency as well as afterwards. Important elements of this deal were the institutional arrangements of the System of European Central Banks, notably central bank independence, but also the enlarged scope for policy cooperation in foreign and home affairs as well as the commitment to Community-wide solidarity through the cohesion fund. Most important, the strategy itself was part of this deal, too, because the strategy determines costs and benefits.

The “Maastricht way” consists of two elements: a kind of general convergence and joint decision-making procedures at certain dates. Two types of convergence have to be distinguished: institutional and macro-economic convergence. Concerning institutions Member States have to grant independence to their central banks and allow for full convertibility of their national currencies, all by certain deadlines. Concerning macroeconomics Member States have to achieve a series of political and economic results: budgetary sustainability, exchange rate stability within the EMS, (downward) inflation rate convergence and (downward) long-term interest rate convergence.

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Concerning the decision-making it has been agreed that for a single currency to be introduced a qualified majority has to decide, by the end of 1996, if a majority of Member States is ready to introduce a single currency and to judge if the introduction of a single currency is appropriate. Only if this is the case will a qualified majority, which must not necessarily consist of all Member States judged to be ready to introduce a single currency, determine the date for its introduction with no restrictions imposed on the choice of date. If a date has not been set by 1996, because a qualified majority of Member States is of the opinion either that only a minority qualifies or that the introduction of a single currency is not appropriate, the single currency will be introduced in 1999. The Member States which are ready to do so will then again be determined by a qualified majority. The appropriateness will not be assessed. Similarly procedures for determining the final conversion rates have been agreed upon.

Feasibility

In general, a feasible strategy for introducing a single currency has to resolve the following conflicts:

- conflicts about the distribution of adjustment costs;
- conflicts about the timing of the introduction;
- conflicts caused by divergent preferences.

The Member States have probably agreed upon the “Maastricht way” with these conflicts in mind.

The general convergence is meant to assure that all important costs that are different for different Member States will be assumed before the introduction of the single currency. In a certain way the required convergence levies a utility tax, albeit alleviated by the transfers from the cohesion fund. Those Member States that are supposed to benefit the most from a single currency, in particular from not being exposed to permanent monetary competition, have to pay a higher tax than those likely to benefit less.

The adoption of these convergence principles has allowed the Member States to strike a balance between the costs and benefits of introducing the single currency on the one hand, and the costs and benefits of having a single currency on the other. As all Member States have signed the Treaty they apparently regard the whole undertaking as beneficial and accept the implicit utility taxation.

Conflicts caused by divergent preferences are also meant to be alleviated by the general convergence. It is supposed to lead to a convergence of preferences, too. Conversely, non-convergence is considered to be evidence of divergent preferences. This is why the Treaty envisages that only those Member States that have revealed convergent preferences are to be allowed to participate, while those that have revealed differing preferences are to be excluded as long as they do not reveal that their preferences are as convergent as those of the participants.

Convergence is also meant to alleviate timing conflicts. Member States are supposed to invest in convergence (e.g. central bank independence, low inflation) because this is perceived as being beneficial independently of the introduction of a single currency. The timing conflict itself, however, cannot be overcome by convergence alone, if some Member States have doubts about the usefulness of a single currency. This is meant to be achieved through irreversibility and an opt-out clause for the United Kingdom.

If a single currency were only to be introduced if at a certain date a majority of Member States fulfilled the conditions and delivered the results, this would imply that a majority of Member States not living up to the requirements of the Treaty would be protected permanently against a minority of Member States living up to its requirements. As it is costly to maintain over several years some of the results which the Member States are required to achieve (e.g. exchange rate stability), the optimum strategy even of a committed Member State would be to try to be the last one to fulfill the requirements. The optimum strategy of a non-committed Member State would be not to fulfill the requirements, or at least not to the extent required. Thus, the permanent protection of a majority of non-performers would create an obstacle to achieving a majority of performers. The investment of a minority of performers thus had to be protected. The profitability of their investment would otherwise be at the perpetual mercy of a majority of non-performers.

It has therefore been agreed that until 1997 a majority of non-performers, that are, of course, supposed to be only not-yet-performers, is protected against a minority of performers charging ahead too rapidly. Thereafter, however, each single performing Member State is protected against a majority of non-performing and/or non-willing Member States because the irreversibility principle requires the introduction of a single currency in 1999 at the latest, also by a minority of performers regardless of their willingness.

“Culture of Stability”

In view of the still prevailing differences between the Member States in the conduct of economic policies, especially with the single market not yet in full swing, advances in general economic policy convergence were felt to be necessary, too. This implied, above all, a stronger convergence of perceptions of the possible impact of economic policy instruments, notably of fiscal and