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THE GERMAN HEGEMONY IN THE EUROPEAN UNION: EUROPEAN ECONOMIC INTEGRATION AS AN ASYMMETRIC REGIME

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Abstract: In this paper we intend to analyze the hegemonic position of Germany within the European Union, examining, from a historical perspective, the process of economic integration of the continent, highlighting the haggling process among its Member States and the emergence of power relations among those. Primordially, the economic relations among the States and the circumstances that led European States to pursue the international cooperation, in order to build an international regime, will be analyzed, considering whether such an asymmetrical arrangement. In view of this, the present work has been organized into three sections and a conclusion where we state our opinion on the subject and point out suggestions and referrals on the theme.

Key Words: Hegemony, International Cooperation, International Regimes, Germany, European Union, Economic Integration.

I. INTRODUCTION

The recent Euro crisis has revealed important points of tensions among the Member States of the European Union, which would have, at its root, the hegemonic position of a reborn Germany within the Union. While in the monetary sphere, the European Central Bank seems to attend primarily the interests and preferences of Germany, in the economic sphere, peripheral states do not seem to have sufficient capacity to compete in the Single Market. These factors, when taken into consideration other issues that permeate the European integration and the German leadership in the decision of these issues leads to the conclusion that the country really took the helm of leadership and – most importantly – that the European integration is, in fact, a

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German project. This conclusion, however, failed miserably to a more detailed historical analysis.

Significant part of this conflictual relationship, as we will see, did not begin with the European Union. The outbreak of the Second World War had as its roots not only political but also economic tensions, which proved themselves very difficult to reconcile. Prevalent within the relations among States, conflict is rule in a global system marked by anarchic characteristics, in which States are willing to act, aiming economic and political gains. This observation led to the conclusion that States are always inclined to obtain absolute gains, even if the pursuit of this goal will lead to irreconcilable conflicts. In this way, while analyzing the hegemonic position of Germany within the EU we should take a historical perspective, taking into consideration the process of economic and monetary integration of the continent, highlighting the processes of bargains among its Member States, as well as any power relations among them which followed the formation of an asymmetrical regime.

The work is divided into three sections. In the first section, we will treat the emergence of the process of international cooperation as a new element to the administration of capitalist economies. With the extension of the scope of action of governments and, once harmony among interests of States is rare, the emergence of conflicts is imminent. Furthermore, the formation of international regimes would be an important element to coordinate the behavior of States willing to cooperate. This, however, does not prevent relations of power from manifesting among States and that a hegemony arises within the regime and that is what we intend to analyze in the two subsequent chapters. First, the second section, analyzes, the beginning of European economic integration – which confines the liberalization and integration of markets and the formation of a customs union – is analyzed. From a historical perspective, we look for patterns that indicate that Germany has led this process, with the purpose of reach its own interests. This means meeting Charles Kindleberger's requirements for the emergence of hegemony, purely for economic power.

Finally, in the third section, we will look at the monetary regimes that arise within the European Economic Community and finally the monetary integration, which followed the Treaty of Maastricht, seeking to find relations of power that, by chance, would highlight to Germany favored position. If it is clear that Germany has a leadership position within the regime, but does not have the economic elements that would make it a natural leader of the regime, such a favorable position would be due to asymmetries during the bargaining and cooperation process.

II. COOPERATION, INTERNATIONAL REGIMES AND HEGEMONY

The end of the Second World War would be the harbinger for the beginning of a new era of global capitalism. Once the relations among the national States were deeply involved in issues of all kinds, governments began decisively to act in order to prevent further conflicts, according to Keohane (1984). The fruitless and bad experience with the First World War denoted the allies of the need to cooperate in the immediate post-war period, in order to establish less confrontational relationships, considering the economic and political regime, that would be led by the USA – the biggest winner of the war. In this view the end of the decade of 1940 and beginning of 1950 would witness the foundation of numerous international organizations such as the organization of the United Nations (UN), the International Monetary Fund (IMF) and, of course, the introduction of monetary regime of Bretton Woods, for example. More specifically in Europe, the United would count with the Organization for European Economic Cooperation (OCEE) and the European Union of Payments (UEP), which, according to Dinan (2014), would have the objective of laying the foundations for European integration, allowing the reduction of trade barriers on the continent and the institutionalization of a multilateral regime of compensation for deficits and trade surpluses. Each one of these international organizations have specific areas of activity and would aim to baste national interests, which could prove difficult to reconcile.

Of course, those projects in different areas served well to American interests, as demonstrated by Anderson (2015), but this does not, however, sheds light on the nature of the problem that triggered this process, nor on the conditions that made that certain countries in certain cases opened the hand of their sovereignty in a certain subject in favor of common interest. In view of the complexity of the problem, the International Political Economy (IPE) will serve as the method to the analysis of the process of international cooperation, the formation of international regimes and the conditions under which a hegemony emerges. According to Gonçalves (2005, p. 11), EPI “is a method of analysis which focuses on the dynamics of the international economic system in their different spheres and dimensions”, which are the result of actions by different actors national or international, “whose conduct is determined by objective and subjective factors”³. The international system, still according to Gonçalves (2005, p. 13), “is, in essence, a dynamic system that involves power and, therefore,

³ According to the definition of Gonçalves (2005), the spheres of the international system are commercial, productive, technological, and financial and monetary. In turn, the dimensions are bilateral, plurilateral and multilateral levels.

it is a system of permanent conflict [...] and unstable balance”. The idea of a system in permanent conflict is related to the maxim that, given the absence of a world government, the States find themselves in an anarchic situation, under which they persecute their own interests and try to enforce their wills – and thus, the conflict will be the rule in relations among States.

In large scale the interests of the States manifested through its foreign policy, would focus on military and defense issues, which can be seen as an eminent reflect of a historical reality, according to which, under an anarchic situation, the main interest of a State is to guarantee their survival, and subsequently increase their power and influence within the system (Aron, 2009). However, the end of the war would reserve political and economic challenges to the European States. The expansion of international trade, the increase in the mobility of capital and the deepening of international finance resulted into complex economic ties among countries (Eichengreen, 2012). In fact, Cooper (1973) identify a rising predominance of international economic issues, which were relegated to lower levels in the national agenda of the States. Under this new reality, although the military power continued to be predominant, Keohane (1984) draws attention to the fact that the predominance of economic issues occurred due to the indisputable fact that the economic liberalization makes the achievement of a national economic policy inseverable from economic policies of other countries. The commercial policy of a State, for example, inevitably, will impact to greater or lesser degree other countries and these causal relations are able both to take another country into a virtuous cycle of growth, or the economic chaos.

It is reasonable, in this way, admit that a country is dependent on one another, which may determine the relationship between these two States. However, Keohane and Nye (2012, p. 7) argue that global capitalism can be characterized by the presence of “reciprocal effects among countries or among actors in different countries”, a situation that has called interdependence – i.e., the mutual dependence, which reigns among the States affected by the externalities of each other. The process of interdependence itself contains elements that can lead to conflict, since we cannot expect to identify harmony between policies (trade, monetary, ecological, migration). According to Keohane (1984, p. 5), the “interdependence can convey good or bad influences: unemployment or inflation can be exported, as well as growth and prosperity”.

What determines, for its part, the result of this process for a given State would be the dimensions of interdependence, which are the sensitivity and the vulnerability. We can interpret sensitivity, such as the degree of exposure of a state in a particular area in relation to the other, i.e., how this State will be impacted by policies or decisions of third parties. The alternatives

that State has and at which cost, it is precisely the dimension of vulnerability; a State will be less vulnerable, if available alternatives that are not costly and that can be deployed with relative ease and readiness:

Under the Bretton Woods monetary regime during the end of 1960, both the USA and Britain were sensitive to decisions of speculators and foreign central banks, moving their assets named in Dollars or pounds, respectively. But the USA were less vulnerable than Britain because he had the option (which he exercised in August 1971) to change the rules of the system, for which the costs become tolerable. The underlying capabilities of the USA have reduced their vulnerability, and, therefore, made its sensitivity politically less severe. (Keohane; Nye, 2012, p. 10).

In the final analysis, these two dimensions shall then generate power relations among States. As “power”, we may take the definition of Keohane and Nye (2012, p. 10), which is the “ability of an actor to make others do something that otherwise they would not do”. From this perspective, a state could resort political or economic decisions in order to affect the others, aiming to generate their own gains at the expense of others or coerce them to make a particular decision – which may take the form of exchange dumping or even sanctions imposed against a country. States seek to find common interests taking into consideration this confrontational relationship, bearing in mind the risks of non-harmonious policies

For Keohane (1984, p. 6), the countries “are engaged in extensive relations of interdependence between them,” reflecting the governmental policies, and “the belief that they can benefit from these ties”, ended by guiding them to a path of cooperation:

A good example of the fundamental problem of cooperation is the case where two industrial nations erect trade barriers to exports one of the other. Because of the mutual benefits of free trade, the two countries would be in a better situation if these barriers were eliminated. But if one of the two countries unilaterally eliminate their barriers, he would find himself facing terms of exchange which would undermine their own economy. In fact, independent of what a country does, the country will be better if you keep their own trade barriers. Therefore, the problem is that each country has an incentive to maintain trade barriers, leading to a worse result than would have been possible if both countries cooperate among themselves. (Axelrod, 1984, p. 7).

Indeed, discord is prevalent in the global system, due to the fact that the States see the policies of other as impediments to the achievement of own goals. Thus, the coordination of national policies becomes a possibility, in order to mitigate the effects of externalities and waste, in some sense, its interests. As a matter of fact, the extensive study by McMillan (1997) made clear that the existence of interdependence by itself it is not the determining factor for the outcome of the relationship among countries. The cooperation may be seen as a possible

reaction to the existence of potential conflicts, but it does not have a deterministic relation with interdependence⁴.

The coordination could be a result of the efforts of States to adjust their policies in order to avoid conflicts or mitigate risks and/or losses, by means of an adaptive process that may or may not involve bargain. Bearing in mind that this process involves invariably “a mixture of conflicting and complementary interests,” according to Axelrod and Keohane (1985, p. 225), the actors must confront positives and negatives incentives, that is, the possibilities of gains or retaliation. These induction factors are decisive for the success of the cooperation between States, since it alters their pay-off matrix to which they are subjected. According to the authors, the first element to be contained in the matrix are subjective factors, such as the mutuality of interests, the fact that they share similar values, the belief that cooperation will be the best alternative and, finally, the perception about relations of power between them. Therefore, we can mention future gains that the States expect to obtain with cooperation, as well as the potential of occurring retaliation as a function of defection. Finally, being the continuous reciprocity an essential condition for cooperation, Axelrod and Keohane (1985) include the number of participants as an important element in the pay-off matrix. This is necessary because it facilitates the identification of free-riders, or the potential of defection, as well as costs related to cooperation. It is important to bear in mind, also, that the larger the conflicts between national interests reflected in this array, the greater will be the possibility of defection.

The cooperation emerges from this process, as a way of institutionalizing these efforts and architecting a set of principles, norms, rules and decision-making processes, called international regime. In its analysis towards the demand for international regimes, Stein (1983, p. 132) argues that “the same forces of independently calculated interests which are at the root of the anarchical international system, also lays the foundations for international regimes as a form of international order”. In view of that, sometimes, the States are brought to take decisions together. As punctuated by Keohane (1983), in face of their anarchic characteristics, when we analyze the international relations, the conflict should be the rule, since the actors tend to act in a unilateral way, seeking, as we have seen, to maximize its utility function.

However, the unilateral action may lead to results which are not Pareto optimal, reason by which, for Stein (1983), these arrangements are related, in the final analysis, the pursuit of collective goods, which meets the common interests, and involve, in principle, collaboration. Perhaps the most prominent feature of international regimes is the fact they constitute elements

⁴ An empirical analysis on how interdependence can generate both conflict and cooperation can be found in Pevehouse (2004).

of an international order and in this sense, Keohane (1984) ponders whether its construction and maintenance depend on continuous hegemony. According to Goldstein (2014, p. 57), “the hegemony is a state that has a preponderance of power in the international system, allowing it to dominate the rules and arrangements by which the international economic and political relations are conducted”.

It is well known that Kindleberger (1973) argued that the absence of a power capable of directing the decision-making process and coordination, inevitably leads to economic instability, which just ended by highlighting the anarchic aspects of the global system:

The international monetary and economic system needs a leadership, a country that is prepared, consciously or unconsciously, under any system of rules that internalized, to define standards of conduct for other countries; and seek to get others to follow, assuming an undue share of the burden of the system, and in particular to maintain its support in adversity, accepting their unnecessary commodities, maintaining a flow of investment capital and discounting their roles. Great Britain held this role until 1913; the United States in the period after the Second World War until, say, the equalization of the rate of interest in 1963. (KINDLEBERGER, 1973, p. 28).

The conclusions proposed by Kindleberger (1973) are closely linked to the Theory of Hegemonic Stability, according to which the international system tends to remain more stable when there is a State that exercises the leadership or hegemonic role. According to Gilpin (2001) and Goldstein (2014), the Theory of Hegemonic Stability has helped to explain the global financial and trade liberalization as a reflection of the hegemonic interests of the hegemonic State, which, by introducing some order to the international system and relieving their anarchic features, you will be able to dominate the international markets. In more detail, Goldstein (2014, p. 59) states that:

The Hegemonies use their power to achieve free trade and the political stability that supports free trade. The hegemony, therefore, provides both the ability and the motivation to provide a stable political structure for the free international trade, in accordance with the theory of hegemonic stability. (GOLDSTEIN, 2014, p. 59).

Of course, however, exploitation and domination of these markets will depend in large measure on the economic capacity of the State that arises as hegemony. A hegemonic power should have control over four factors, essentially, which are: control over raw materials, which has justified the expansion of territory and influence; control over sources of capital, from well-developed capital markets, which will ensure the State the opportunity to lend to its allies or deny resources to its opponents; control over markets, may have demonstrated an important source of power, once a State may, again, ensure access to its internal market to certain countries

in the face of concessions and the expansion of its influence, while denying to others; and, finally, competitive advantages in the production of high added value goods that will give the State the possibility of raising the profits of its export sector, which will provide resources, that once applied in scientific development, would potentially extend its technological frontier increasing its competitiveness in a constant cycle:

To be considered hegemonic in the world political economy, therefore, a country must have access to raw materials are crucial, controlling the main sources of capital, maintain a large market for imports, and maintain comparative advantages of goods with high added value, generating relatively high wages and profits. Furthermore, it should be stronger, these dimensions, taking as a whole, than any other country. The hegemonic stability theory predicts that the more this power dominates the world political economy, but cooperatives will be the intergovernmental relations. (Keohane, 1984).

However, Keohane and Nye (2012) also argue that having access to these factors is not enough for a State with hegemonic pretensions. As a matter of fact, such State needs to effectively exercise their leadership towards the others, engaging decisively in the construction and maintenance of principles, norms, rules and decision-making processes, which reflect their preferences, for the perpetuation of the regime. In fact, as pointed out by Rittberger (2011), the institutions that arise from cooperation should not be overestimated, once they represent in some extended the outcome of diverging interests. In this way, a State with the necessary resources will, in fact, be hegemonic, according to Keohane (1984, p. 35), “except when it decides not to jeopardize the effort necessary for the tasks of leadership, even if they do not tell us that will determine his decision”.

III. PAX GERMANICA: THE EUROPEAN INTEGRATION AS A GERMAN PROJECT?

The economic and political integration of Europe, through the construction of international regimes, circumscribing the most varied areas of issues, was undoubtedly an effective mean to ensure peace on the continent, considering its confrontational past. As demonstrated by Ette (2014), the combination of economic integration and the construction of a system of institutions has significantly contributed to peace and stability among the Member States of the European Union (EU). Historically, long periods of peace are associated with trade liberalization, once, as demonstrated by Copeland (2015, p. 27), the liberalization of trade between nations introduces an additional variable in their relations, which is the “actors’ expectations in relation to future trade and investment environment”, even though security is

the main concern of the State. Clearly, the maintenance of continental peace is the result of the construction of a structure that sustains conflicting interests, while the economic liberalization is deepened, what is similar to the two major periods of relative world peace, which are the Pax Britannica, which lasted between 1815 and 1914 and the Pax Americana started in 1945⁵.

Yet, despite peaceful, the relations in Europe drew the attention of the international community in two moments. In first place, when the fall of the Berlin Wall and the reunification of Germany, brought back the secular geopolitical problem known as “The German Question”, as stated by Bertram (1990) and Kundnani (2015). Suddenly, Europe has envisioned the possibility of a giant at the heart of the continent, while the process of integration walked strides with the “1992 Program”. The response would take the form of the Treaty of Maastricht, which in addition to creating the EU, establish a common currency, significantly deepening the political and economic integration among its Member States. However, in the wake of the 2008 financial crisis, the outbreak of the Euro crisis in 2010, in addition to widening economic problems related to European integration, revealed a significant asymmetry in the decision-making process within the Euro area (GALBRAITH ET AL., 2014). This kind of discrepancy in the preferences of economic policies adopted in the eurozone, far from just raising questions about the acceptability of currency by other countries, also raised doubts about its sustainability.

Although the EU has been essential for the maintenance of peace and the growing income within the continent, the emergency of power relations during the economic integration is apparently critical for the perpetuation of its regimes. Germany's role within the regimes has historically taken contours of a hegemonic role. According to data from the World Bank, in 2018, the country was responsible for around 21% of GDP⁶ in the EU and has historically maintained trade surpluses, which allows it both to finance its own gross capital formation and to finance it in others Member States. Major part of its success in external trade is due the exports of high technology-intensive goods, which accounted for 16% of total manufactured exports of the country in 2018 and naturally the portion of its gross domestic product that is invested in research and development (3% or 1% above the average of EU)⁷. It is important to mention that, according to data from the United Nations (conference on Trade and Development

⁵ On the *Pax Britannica*, see Gough (2014) and Hobson (2004). Kiernan (2015) provide further details on the *Pax Americana*.

⁶ Measured as current USD. See the World Bank data series NY.GDP.MKTP.CD
<<https://databank.worldbank.org/reports.aspx?source=2&series=NY.GDP.MKTP.CD&country>>

⁷ See the World Bank data series TX.VAL.TECH.MF.ZS
<<https://databank.worldbank.org/reports.aspx?source=2&series=TX.VAL.TECH.MF.ZS&country>>
and GB.XPD.RSDV.GD.ZS
<<https://databank.worldbank.org/reports.aspx?source=2&series=GB.XPD.RSDV.GD.ZS&country>>

– UNCTAD), between 1995 and 2017, approximately 61% of the goods exported by Germany headed to other Member States of the EU, while the other 16 partners that compose the Euro zone received approximately 41% of its exports. The data is relevant if we consider that historically exports have had singular importance for the economic growth of the country. In addition, by responding for approximately 18% of the population of the EU in 2018, according to data from World Bank, Germany has one of the largest markets to be explored and, indeed, about 58% of imports of goods from the country has as its source countries of the EU⁸.

The Theory of Hegemonic Stability can help us understand, if by purely economic means, Germany would meet all the ordinances required for a hegemony and, in this sense, the country would be able to steer the process of European economic integration, building a system that meets its own interests. In spite of the fact that, from this perspective, the data indicate certain German preponderance in the continent, we will rely on a historical analysis for questioning this role, considering whether, since its inception, Germany was really the leader of this project.

The idea of an economically or politically united Europe is multiseccular⁹. But after the Second World War, the idea of an integrated Europe was asleep, and the continent was in a power vacuum that soon would be taken by the political and ideological war between USA and USSR. In the west, the USA saw no resistance to place itself as “the architects of the international economic order of the post-war” being “mainly concerned with the establishment of institutions and the promotion of policies that avoid the repetition of the experience between wars” according to Irwin (1995, p. 130), and acted decisively toward the establishment of the General Agreement on Tariffs and Trade (GATT) and Bretton Woods monetary system. While the concern in relation to full employment and income generation, according to Irwin (1995) and Eichengreen (2012), would motivate the creation of the international monetary system of Bretton Woods, coordinated “tariff reduction and elimination of quantitative restrictions on international trade,” according to Irwin (1995, p. 130), would be an important element for the reduction of protectionist practices and the increase of the product.

The Geneva Round of GATT in 1947 count with the important presence of world powers, such as the USA, United Kingdom, France and China and included 123 agreements,

⁸ For the data for import and export of UNCTAD, see the series *Merchandise trade matrix – imports of individual economies in thousands of United States dollars, annual*

<<https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=195167>>.

Regarding the population percentage, we used the World Bank data series SP.POP.TOTL

<<https://databank.worldbank.org/reports.aspx?source=2&series=SP.POP.TOTL.&country>>.

⁹ See Monnet (1976).

covering more than 45 thousand items, in accordance with Gillingham (2003). As demonstrated by Irwin (1995), the expansion of world trade would be exceptionally faster than that seen in the period after the First World War. In relation to the year 1935 in 1948 there was a clear tendency to trade liberalization, with an increase of exports of 152%. But even so, between 1935 and 1948, exports of manufactured products (134%) increased by a smaller percentage than that of other goods (168%). This relationship is profoundly altered between 1948 and 1960, period in which the exports of manufactured products increased by 188%, while those of other goods increased by 74%.

The USA, in fact, struggled for Europe to recover and believed that the liberalization of trade among European countries would be essential, not only for the reconstruction of the continent, but also for the maintenance of peace. Created in April 1948 under the aegis of the Truman Doctrine, the Organization for European Economic Cooperation (OCEE) and the European Union of Payments (UEP) laid the foundations for European integration, allowing the reduction of trade barriers on the continent and the institutionalization of a multilateral regime of compensation for deficits and trade surpluses, second Dinan (2014). On the other hand, is demonstrated by Judt (2008) that, once the war was ended, there was a real attraction by communism, which justified, in 1947, the introduction of the Truman Doctrine, which aimed to protect the most fragile links of capitalism of the communist threat. Inserted in this process, the Marshall Plan used US\$13 billion for the reconstruction of Europe.

Alongside the monetary reform, the Marshall Plan had as its main role the capital formation in Germany according to Abelshauser (2011), once the monetary reform had compromised domestic savings. Its political effect was also significant, given that it favored the political climate in the country around the social-democratic reform proposed by Chancellor Konrad Adenauer. In addition, the program serves to demonstrate to the American authorities the importance of the unification of the western occupation zones and the role that Germany could play in Europe from then on. As the dollar shortage threatened the European reconstruction, once the States could not trade among themselves, the USA used the Marshall Plan as a mean to coerce the European States to cooperate among them, with the aim to build the European Payments Union, according to Hermmann (2019) e Abelshauser (2011).

But the European States, although rejected the protectionism of the years 1930, would not automatically align themselves to this new order, according to van Zanden (1998), because there was a clear interest of the European States to modernize their economies, through a process of import substitution, according to Milward (2000; 1984). Several times threatened by German power, France intended to ascend as the predominant power of the continent, with the

so-called Monnet Plan, which, once announced by Charles de Gaulle, had as its objective to rebuild and modernize the French economy (Gildea, 2002). The French, however, depended to a large extent of German coal, which until then had productive restrictions imposed by the allies. It was in this context that the Schuman Plan, inspired by Jean Monnet and Robert Schuman announced in May 1950, had appeared. The European Coal and Steel Community (ECSC), count with the participation of France, Italy, the Netherlands, Belgium and Luxembourg (the last three, henceforth, BENELUX), in addition to Germany. In accordance with Judt (2008), the coal was responsible for 82% of energy consumed then and it would be unthinkable that the process could continue without Germany – while the country, by its side, saw the plan as an opportunity to regain their sovereignty, getting rid of the Allied authorities.

The complex combination of interests involving the liberalization of international trade, led by the USA, the need for reconstruction and modernization of European economies (in particular France) and the German desire to reenter as a sovereign State in relations among the western States was what, in a certain sense, paved the path toward European integration. The interdependence among the energy sector and other economic sectors, however, was unraveled as the ECSC evolved according to Clemens et al. (2008). The production of coal and other commodities according to Braun (1990) were, in large measure, the means of Germany to rebalance its trade balance and begin to have surpluses achieved from 1951, reversing the trend of trade deficit started in 1949, due to the quantity of imports necessary for its reconstruction. Thus, the hypothesis of a common market in Europe rumbled in Germany as a form of the country further expand their exports of manufactured goods. France also grew considerably and, despite the temerity to the competitiveness of Germany, in accordance with Gildea (2002)¹⁰, the authorities of the country saw the idea of a common market as a good opportunity.

The ratification of the Treaty of Rome and the creation of the European Economic Community (EEC) and the Single Market, would allow Germany to expand greatly their exports from 1957. In fact, according to Braun (1990), German exports would be fundamental to the maintenance of growth rates in the country, doubling its participation in the GDP of the country after the foundation of the Single Market. Also, for France, Gildea (2002, p. 100) shows that “the volume of the French foreign trade, which had grown by about 1% per year before the war and 6.5% in 1949 and 1959, increased by 10.8% in the period 1959-1974”, making it the fourth largest exporter in 1964. According to Braun (1990, p. 246) the EEC fulfill an important role,

¹⁰ In fact, there has been a huge debate in Germany about the way that commercial cooperation in Europe should be structured. Ludwig Erhard, minister of finance of the country, advocated a free trade area, while Adenauer adhered to the idea of the Spaak Report (1956) about a customs union.

since “the great market of the EEC favored foreign direct investment in other countries of the Community and the growing dependence on exports and the increase of foreign trade surpluses induced investors to support exports of foreign direct investment abroad”. In this sense, although Germany may have been favored by the access to the markets of other members, it is unlikely that the country has succeeded in driving this process.

On the other hand, it is much more likely that the construction of the EEC has been, really, reflection of the growing interdependence among European markets. Ette (2014) argues that in its beginning, the European economic integration was only possible due to the deepening of interdependence and the formation of a complex network of trade that permeated all six Member States. Although the lack of data makes the task of identifying this network impossible, the discussion in relation to the measurement of economic interdependence, presents us with numerous ways to quantitatively assess this process (TETREULT, 1980; BALDWIN, 1980; GUTOWITZ AND ROSECRANCE, 1981; BLANCHARD ET AL, 2007; GOMEZ ET AL, 2013).

Gomez et al. (2013) suggests that the process of interdependence could be measured through the analysis of national business cycles, assuming that the economic integration leads to the formation of value chains internationally intertwined. This would mean that the growth or stagnation of the product of a given country must necessarily reflect in other countries, bearing in mind that the acceleration or deceleration of production will increase or decrease the demand for imports from another country, with which the first country has trade relations closer. Assuming such approach, we can take the GDP per capita as a proxy, separating three historical series that understand the period from 1940 to 1970, with values presented in American Dollars converted into Geary Khamis (GK\$)¹¹, what will enable to make temporal and international comparisons. Thus, the agglomerative grouping (Agglomerative Nesting – AGNES) will allow us to measure the Euclidean distance between the points to later regroup the countries which showed similar temporal evolution of GDP per capita in leveled groups and subgroups (KAUFMAN and ROUSSEEUW, 1990).

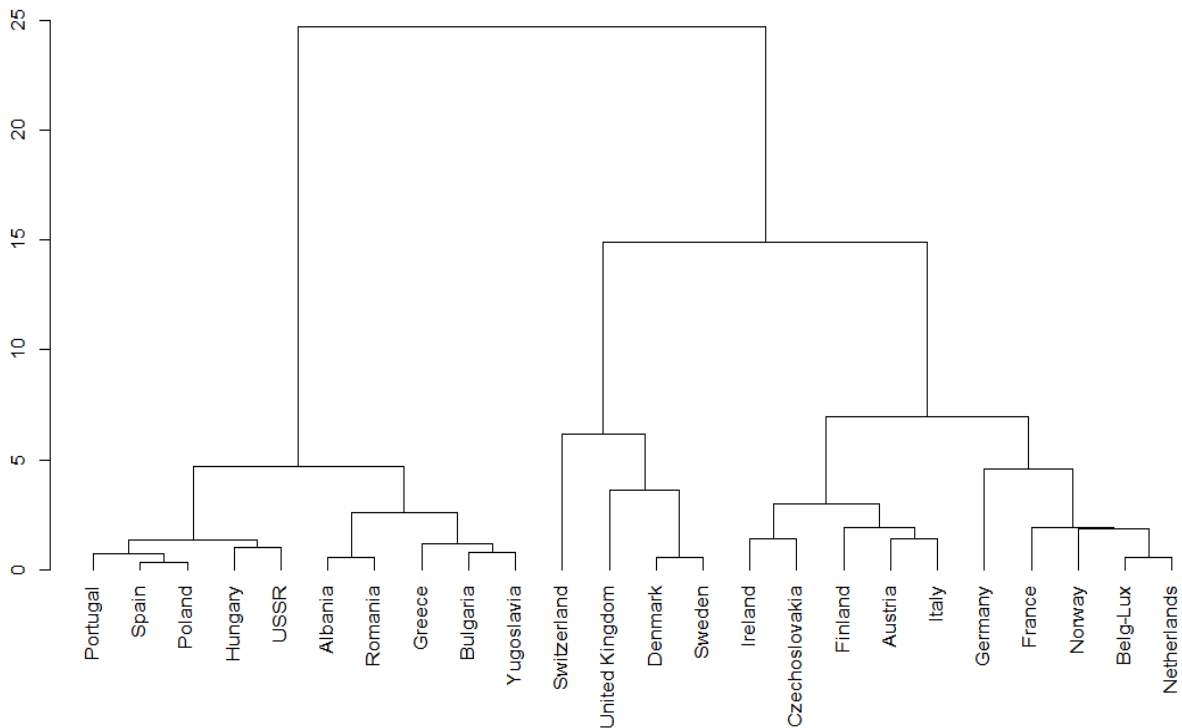
The three hierarchical analyzes are performed agglomerative coefficient between 0.94 and 0.96, as an indication that, in their great majority, the evolution of the normalized GDP per capita of the countries remained somehow related, which gives us greater security, regarding the hierarchical structure formed. The three figures are also similar with respect to the formation

¹¹ For the non-normalized data user to this analysis, see the *Maddison Historical Statistics* of the Groningen Growth and Development Centre. <https://www.rug.nl/ggdc/historicaldevelopment/maddison/data/md2010_vertical.xlsx >

of two large groups, that had, during the respective periods, a forthcoming evolution of GDP per capita.

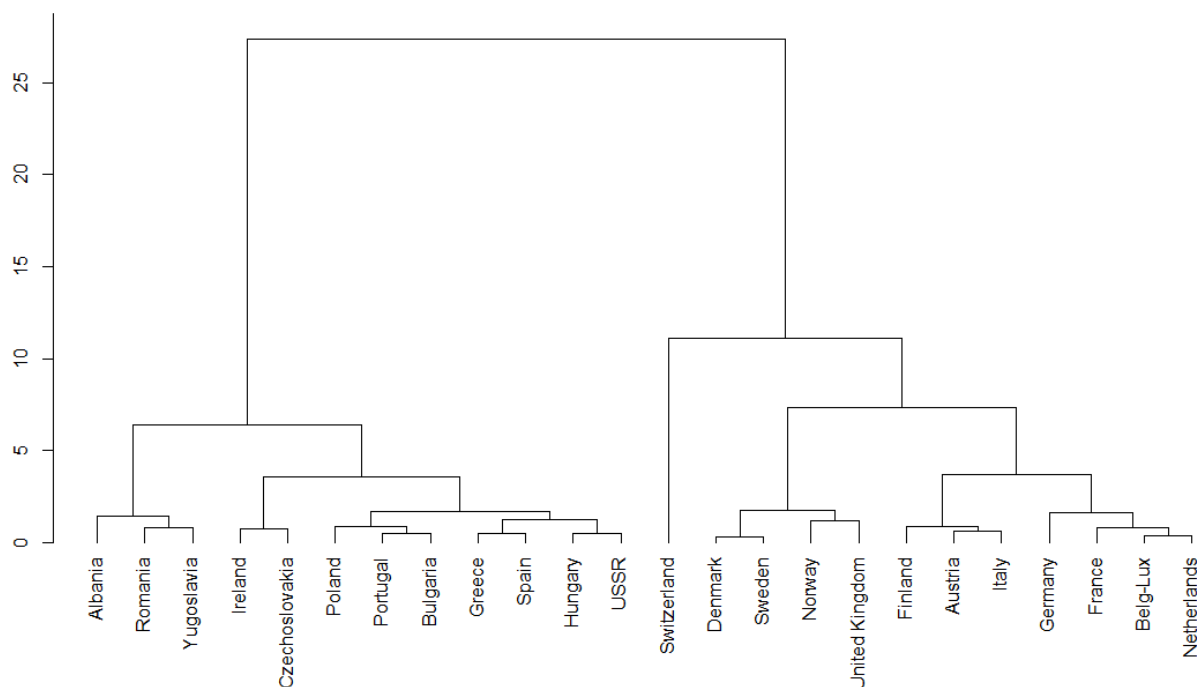
In Graph 1, the two large groups separated the economies with higher and lower GDP per capita. France, Belgium and the Netherlands seem to have had a closer relationship. While France and Netherlands suffered a recession throughout the 1940s, during the 1950s they recovered significantly, Belgium did not experience such a recession, but its economy grew in a weighted and constant way since 1945. We should also consider that much of this growth may be related to the rapid recovery of Germany after World War II.

Chart 1. Hierarchical Cluster: Normalized per capita GDP in GK\$ (1940-1960)



Source: Own elaboration with World Economics data (Maddison Historical GDP Data)

In the second period analyzed in Graph 2, we can verify important structural changes. Firstly, Western Europe would become more homogeneous from the second period onwards, and the ECSC countries, with the exception of Italy, would all occupy a fifth-level cluster, indicating greater economic interdependence. Chart 2 still marks the closest convergence between the UK, Ireland and Denmark economies, years before the first enlargement, in 1973.

Chart 2. Hierarchical Cluster: Normalized per capita GDP in GK\$ (1950-1970)

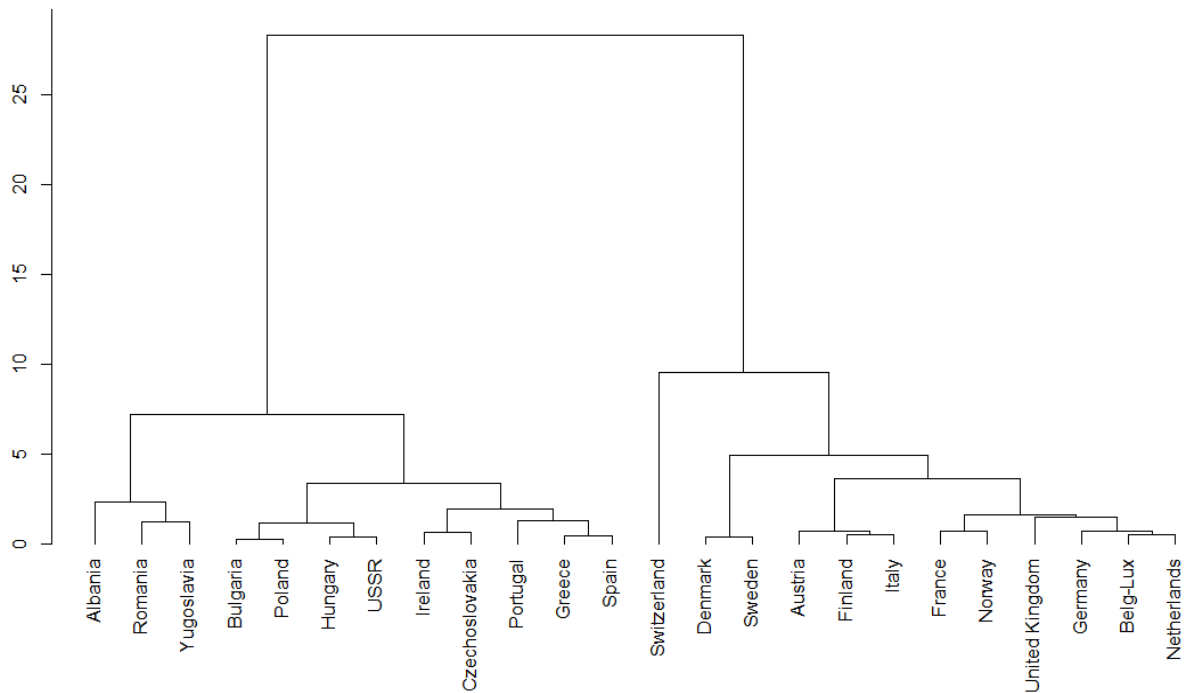
Source: Own elaboration with World Economics data (Maddison Historical GDP Data)

Finally, Chart 3 shows that during the third period the similarity in economic development between the majority of Western European states would increase significantly. Of the twelve countries that occupy the cluster on the right, seven were already members of the EEC. The evolution of GDP per capita in Ireland was more similar to that of the countries in the left cluster, as well as other Western European countries, such as Greece, Spain and Portugal, which did not show any similarity in the three periods analyzed with the other countries of Western Europe. In the case of Ireland, however, this incongruence may reflect the troubled 1970s, when Ireland experienced unstable income increase.

It is essential to mention that the growth of trade among members of the EEC and the structure of exports from these countries would begin to change already in 1954, as demonstrated by Milward (2000) – i.e., even before the ratification of the Treaties of Rome and the foundation Common Market. The interdependence between the economic sectors acted in order to promote the integration of markets and the subsequent construction of institutions that guarantee the expansion of markets and their exploitation. This fact strengthens the thesis of Gillingham (2003), of which these economic and political constructions (objects of international cooperation) that had emerged subsequent to the imposition of the GATT and Bretton Woods, that is, projects predominantly Americans, led to a Pax Universalia (and not Americana). In this way, the EEC would be important even for the smaller countries, since they

could exploit large markets (such as the French and German) and still have the opportunity to oppose, within a broader international agreement (as the GATT), its own interests, through the construction of regimes involving a smaller number of countries, which would culminate in increasing their bargaining power in more extensive international negotiations.

Chart 3. Hierarchical Cluster: Normalized per capita GDP in GK\$ (1950-1970)



Source: Own elaboration with World Economics data (Maddison Historical GDP Data)

For its part, during the first decades of European integration, Germany remained as a “tamed power” – using the term of Katzenstein (1997). In fact, as pointed out by Adenauer (1953; 1962), the country sought essentially rebuild its economy, ensuring the population primary needs, keeping away from radical solutions experienced in the recent past and, of course, in the external sphere, a further rapprochement with France, through the identification of common interests and responsibilities in relation to the continent. The formation of international regimes would be the obvious solution for both, in view of the favorable environment, which includes the existence of previous regimes, the expansion of economic relations between States, as well as the conciliatory tone on the continent.

IV. ONE MARKET, ONE SINGLE CURRENCY AND A RELUCTANT HEGEMONY

The situation would change completely in the advent of the decade of 1970. The monetary disorder that followed the end of the Bretton Woods regime, led to a wave of

indiscriminate exploitation of the currencies of the EEC in relation to the American Dollar, undermining the competitiveness of those countries, besides, of course, affecting the prospects in relation to inflation. The answer would be the Smithsonian Agreement, which would put the Deutsch Mark as an anchor of the economic stability of the EEC. In relation to the currencies of the EEC, exchange volatility in relation to the German currency would be significantly lower than in relation to the Dollar. This arrangement would provide a window of approximately three years of exchange rate stability, which guaranteed to the States the opportunity to expand their exports. Of course, the fact of that the Deutsch Mark was anchoring the others EEC's currencies would pose Germany as an incipient leadership, although that leadership was not able to reduce the impacts of the 1973 oil crisis, which put the EEC on its knees, due to the extreme dependence of the continent on fossil fuels.

While Germany, like the USA, were affected as early as in 1974, the rest of the economies of the EEC resist until the following year because of their exports. The complete inability of governments to deal with the exchange rate instability would result in an uncontrolled inflation, widespread among the members of the EEC. According to data from the World Bank, apparently controlled during the decade of 1960 and tamed while the Serpent in the Tunnel was working, the average inflation of the EEC (measured as the GDP deflator) would increase from 4.33% by 1966 to 12.85% in 1975, reaching 20% in Italy, 17% in Luxembourg and 15% in the United Kingdom.

The fact that the USA was not be willing to carry the burdens of the Bretton Woods monetary regime was something that made the economic instability put the European integration to the proof. The complete lack of commitment from the USA with the leadership that the country once played, reverberated in 1971 at the G-10 meeting in Rome, in which the American Treasury Secretary John Vicente said that "The Dollar is our currency, but it's your problem". As punctuated by Ruggie (1981), the European national leaders blamed the persistent trade deficit of the USA, financed by money creation, for the rising instability in international financial markets. In accordance with Gillingham (2003), the USA monetary disorder, which resulted in the export of inflation and slow economic growth, in some extent accelerated the discussions about the European monetary cooperation. But if the absence of USA leadership, in part, let the European States to their own fate in an unfavorable external environment, we need to understand what justifies the German leadership in the establishment of a monetary regime.

As highlighted by Moravcsik (1998, p. 239), "both the decline of Bretton Woods, as the growing mobility of capital that undermined the domestic macroeconomic autonomy, fired

the search for a regional arrangement that stabilize the exchange rates". A new regional arrangement, however, would require ability to determine the direction of the negotiations, by means of bargaining power, and to sustain the cost of the institution of this new regime. In previous decades, Germany was more concerned with domestic affairs, but, given the concern with the global economic and monetary disorder, the return to an administered floating exchange rate regime that guarantee greater stability would be essential for the deepening of economic integration. The fast negotiations between Giscard d'Estaing and Schmidt for the construction of the European Monetary System (EMS), had as central point to establish a monetary regime that does not accentuate asymmetries among the members of the EEC, like the Smithsonian Agreement. To Kaltenhaler (1998) calculations in relation to the potential gains from exchange rate stability were determinant for the actors to bet on the EMS.

The process would need a leader, who could incorporate determinant economic conditions to the regime and meet the interests of others (while corresponding to it owns). This leader would respond by the implementation of an institutional framework that would guarantee greater stability, providing liquidity to the others members and ensure sufficient economic resources to carry the burdens of the regime – which would be a hegemony. According to data from the World Bank, in 1978 Germany was the largest economy of the EEC, representing 25.6% of Community GDP – a position sustained since the foundation of the ECSC – in addition to having the lowest rate of inflation (3.5%, measured as the GDP deflator), something that would be fundamental to the desired stability of the regime. Another significant point: from 1965, the country would accumulate positive balances on current account, reaching a trade surplus of US\$ 9.2 billion in 1978.

However, between 1976 and 1987, the markets of the EEC would not absorb more than 12% of the total exports of the country, according to data from Eurostat, although it was of fundamental importance to strategic and globally competitive sectors – such as vehicles, mechanical applications, articles of metal and chemicals, which in this period accounted for 69% of the German exports – given the fact that these sectors respond for approximately 48% of all intra-regional trade within the EEC. In addition, according to data from UNCTAD, in 1979 Germany was only the third largest responsible for foreign direct investment flows within the EEC, behind the United Kingdom and the Netherlands. In relation to the Netherlands, the flow of investments in the country accounted for only 79%, a value that falls to 40% when compared to the United Kingdom.

From the purely economic point of view, these seem to be the conditions necessary for a currency to serve as the foundation of a monetary regime (EICHENGREEN, 2012). However,

it would be questionable to assume that, at that time, the country was an imminent hegemony about to dominate the continent. Moreover, under the perspective of the country, in addition to having to carry the burdens inherent to the system, its national interests should be focused on monetary cooperation, as a means of endorsing the perpetuation of integration. To Kaelberer (2001, p. 56), while Germany has, since the establishment of the EMS, “managed the exchange rate system and provided some degree of coordination policy”, it does not appear to meet the criteria listed by the Theory of Hegemonic Stability. In fact, the economic preponderance of Germany within the EEC when the institution of the EMS is questionable and the justification for the construction of a European monetary regime seems to have more relation with the adverse economic scenario than with national strategies.

According to Eichengreen (2012, p. 183), the end of the Bretton Woods monetary regime was the most significant event in the international monetary. As highlighted by Calleo (1975), once sustained by the American power, the regime gave the European and Japanese economies the conditions to recover economically, as well as allowed the gradual reduction of protectionist measures through the framework of the GATT. But with the end of the regime, in accordance with Eichengreen (2012, p. 183), the monetary policy would have as its main task to ensure the stability of the exchange rate. An essential factor for this, with the recovery of the markets and international transactions urged market participants to find ways to outline the barriers to flows imposed:

The operation of a fixed, but adjustable exchange proved increasingly problematic for governments and central banks. The slightest signaling that a country would be considering a change in parity could submit it to huge capital losses, discouraging the authorities to even contemplate such a measure. [...]. In a world of great mobility of capital, the defense of a parity required unprecedented levels of intervention in exchange markets and international support. (EICHENGREEN, 2012, p. 184).

Indeed, a decade before, Mundell (1962) stated that facing greater capital flows, countries would undergo difficulties trying to reconcile full employment and equilibrium in the balance of payments, having two free variables (terms of exchange and interest rate). For Mundell (1960, p. 249), that would force governments to choose for which purposes the monetary policy should be directed: if for the stabilization of the exchange rate, “to keep the external equilibrium, allowing the price level to keep the internal balance” or for the stabilization of inflation¹².

¹² Mundell (1962) and Obstfeld *et al* (2005).

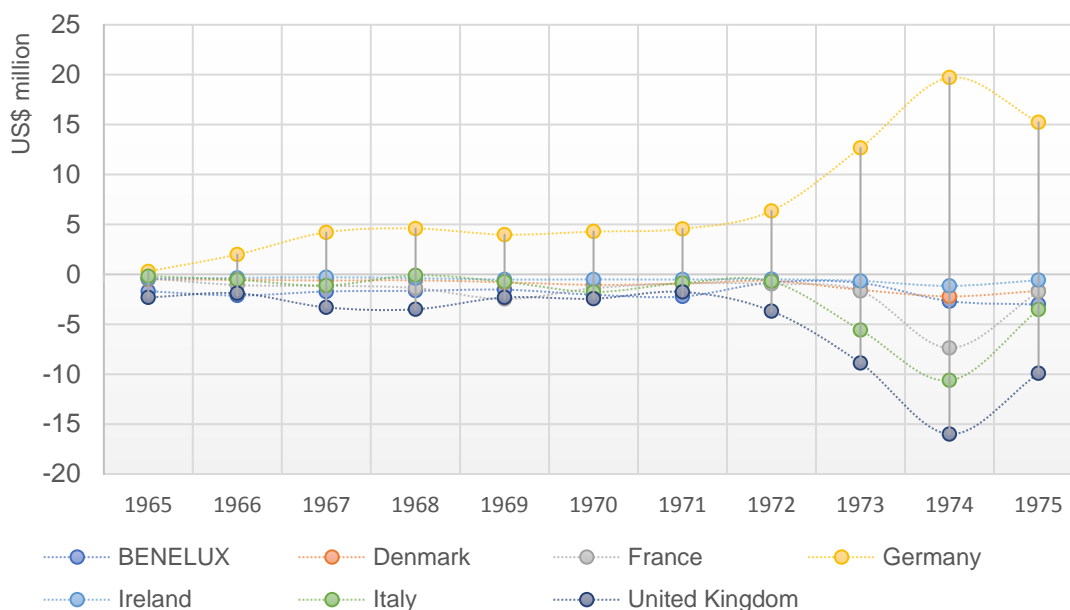
According to Katenhaler (1998), the EEC was threatened to see the intra-European trade wither, while the Common Agricultural Policy (an agreement which served precisely as a counterpart for the integration of markets, relieving the trade balances of less competitive) became untenable¹³. As a program of subsidies and investments, at that time, the CAP consumed approximately 70% of the budget and had about 60% of officials of the EEC oriented to ensure its operation. Under a regime of floating exchange rate, it would be expected that the costs in relation to their maintenance would grow absurdly, reflecting the intense debate that took significant proportions in that period¹⁴.

In addition to the unstable CAP, the economic situation of the Member States of the EEC began to deteriorate in 1975 with a fall of 1.1% in the GDP in 1975. The deterioration of the trade balance seems to have been the main cause of the fall in GDP in the period. As we can see in Chart 4, in general the trade balances of the members of the EEC would come from a position of manageable imbalance for a chaotic situation in only ten years. Taking Italy as an example, its trade deficit came from a position of US\$179.2 million in 1965 to US\$3,537.8 million in 1974 (a variation of 1,874.2%). This would be the rule for the majority of Member States of the EEC, in particular France (increasing the deficit in 344%), UK (328%) and Denmark (228%); the mildest cases would be those of the BENELUX countries (79%) and Ireland (38.6%). For its part, Germany started to have significant surpluses in this context, from a surplus of US\$300.5 million in 1965, for US\$15,245 million in 1975, after reaching US\$19,707 million in 1974.

Furthermore, in the EEC experienced a widespread inflationary process – according to data from the inflation.eu, in 1973 the average inflation of the EEC was 9.22%, the highest value since 1960. A relatively stable country, Denmark registered the higher inflation within the Community in 1973, reaching 12.57%, number significantly greater number than other States with inflationary history like Italy (12.52%), UK (10.58%) and France (8.48%). Even Germany, which remained as a country with lower inflation rate in the EEC, saw the possibility of achieving an inflation rate of 8% in 1973 compared to 2% in 1969.

¹³ Clemens *et al* (2008) and Berlin (2014)

¹⁴ European Commission: Rural development and agriculture – The History of the CAP: http://ec.europa.eu/agriculture/cap-history/crisis-years-1970s/index_en.htm

Chart 4. Trade Balance: Member States of the EEC (1965 - 1975)

Source: Own elaboration with data of UNCTAD¹⁵.

According to Kaltenhaler (1998), although little attention has been given to the monetary cooperation during the ratification of the Treaty of Rome, this kind of arrangement became the focus of discussions while the integration was deepened. The problem of an exchange rate arrangement for EEC rests in the measures of adjustments available to each economy, taking into account the possibility of imbalances in the balance of payments. As maintained by Kaelberer (2001), a country with relatively weak currency, usually has as options for adjustments the depreciation of its currency, the financing of the imbalance through its international reserves or, finally, the imposition of deflationary policies. For countries with relatively strong currency, the options are diametrically opposite each other, i.e., the possibilities of appreciation of its currency, accumulation of reserves or inflate its economy. The economies that comprised the EEC were precisely characterized by a relationship among weak currencies (Franco and Lira, for example) and strong (Deutschmark and Dutch Guilder) and were precisely the adjustment measures available to each government which featured a first relationship of power among Member States. Once Germany had the world second reserve currency, and taking into account the economic conditions that would allow such assignment, the country would be brought back to the center of the process (as the example of ECSC). The absence of rules and norms that coordinate and drive the behavior of States in monetary issues,

¹⁵ See the series *Balance of payments, Current account balance, annual* <<https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=113>>

resulted in unilateral actions when the first oil shock, as a way to respond to the growing inflation – the result was a speculative attack against the broken arrangement, according to Clemens et al., (2008).

Beside Schmidt, Giscard d'Estaing was able to meet the necessary conditions to approve the European Monetary System (EMS) as a symmetrical regime – and even Schmidt was convinced that this could happen, analyzing the prior regime in retrospect:

Create another asymmetric regime would not promote the cause of Schmidt in trying to deepen the integration process to consolidate the power of Europe vis-à-vis the United States. Another asymmetric regime would only prepare the ground for further tensions between Germany and its neighbors with weak currencies. In addition, he was well aware, through their conversations with Giscard, that the French would not be willing to accept a “snake” with another name (KALTENHALER, 1988, p. 1124).

The desired symmetry in the regime would be precisely the creation of a basket of currencies to maintain the national currencies paired. Furthermore, the European Monetary Fund (FME) to be created, should be able to intervene in the system to help weaker currencies. These were the main expectations which led to the fast negotiations in relation to the institution of the EMS. However, it was clear that if the EMS was to be used as an adjustment mechanism, the average economic performance of the countries that comprised the basket would serve as a point of reference for the exchange rate adjustments. In this situation, as all other countries were economically more homogeneous and less fearful in relation to inflation, Germany would be the regime outlier, and Germany would be precisely the country forced to intervene to adjust, adopting expansionary policies, which displeased the Bundesbank, according to Kaltenhaler (1998).

To Kaelberer (2001), the comfortable balance of payments situation of Germany was decisive in this process. Germany did not need constantly devaluing their currency as a way to gain competitiveness in the markets. Moreover, the monetarist bias of its economic policy, always being willing to inflict austere measures, were determinant for the country to gain credibility with the markets. Likewise, the proposal to create the FME would be borne, precisely because of the country's fears of losing control over its monetary base, triggering an inflationary process. The problem in this negotiation was definitely the absence of credible threats on the part of France and the other countries with weak currencies, which ended by limiting its bargaining power. The only alternative available to these countries would seek a monetary regime between them, but such arrangements, it is well known, would not present the markets the stability and credibility expected and their economic problems related to foreign exchange

fluctuation would persist¹⁶. In order for the regime to have resilience when confronted by the markets, a State with a strong currency would need to be able to associate, even if from the perspective of that State, the regime would not be of any interest.

Established in March 1979, the regime would require time for its mechanisms had any result. The first signs of decrease in inflation began to emerge only in 1982, with the average inflation of the EEC, excepting the Germany, reaching 11.5%, in contrast to the 14.15% of 1979. According to Mastropasqua et al. (1998), between 1983 and 1985, the EMS would be free of tensions in virtue of the progress of States to contain inflation, allowing them to recover its competitiveness. Therefore, the interest rate was the main factor for the achievement the objectives both in the internal sphere (containing the inflation), as well as in foreign sphere (attracting capital). The most interesting feature of the regime would be precisely the ability of Germany to determine the “floor” of interest rates of other countries within the regime. Until the end of the decade of 1970 there was not such disparity in interest rates among Member States and sometimes these are tantamount.

In the context of the EMS, in a first moment, we can explain such a movement by the need of the Member States in maintaining their respective currencies within the fluctuation bands of regime: with the deterioration of the balance of payments and the gradual compromise of reserves, maintaining high interest rates would help in attracting foreign capital. A symptomatic example of this power of Germany, was when, in 1991, France had announced a lower interest rate than that of Germany and the markets reacted negatively, making it to give up.

To Kaelberer (2001), the asymmetry of the regime was manifested in the fact that Germany did not commit any of their political preferences, inflicting, beside the other countries with strong currencies, their preferences over countries of weak currencies. Unlike Bretton Woods, where he explains the dominant position of Dollar in face of the burdens that was carried by the country, in the EMS, the position held by the Deutsche Mark and the restrictions that such role would impose to other countries were not explicit. Considering these institutional differences, we can conclude that the hegemonic position of the Deutsche Mark within the EMS derived essentially from its surpluses in their balance of payments. In other words, the relative power of Germany came from the fact that the country does not need to worry about its balance of payments – the well-known “n-1” Principle:

The combined balance of surpluses of balances of payments surplus countries corresponds exactly to the balance of payments deficits of all the countries in

¹⁶ About the causes of speculation against a currency, see & (2012).

deficit, since the overall balance (when the asymmetric treatment of gold or other reserve assets is avoided) is zero. This means that each country has a separate instrument to control its balance of payments, there is an additional degree of freedom. Only $n-1$ independent instruments of balance of payment are needed in a world with n countries, because the equilibrium in the balance of $n-1$ countries implies the equilibrium of the balance sheet of the n th country. The problem of redundancy is the problem of deciding how to use the extra degree of freedom. (Mundell, 1968, p. 195).

Once the country has not faced problems in its balance of payments and exchange rate volatility was not a problem for their competitiveness, the country could have its credibility with the markets in favor of the regime. Likewise, when the interest rate was not sufficient to contain the foreign exchange fluctuation, interventions in financial markets, as demonstrated by Giavazzi and Giovannini (1989 apud. Kaelberer, 2001), were carried out by other countries. It was precisely from this passive role that the hegemony of Germany was derived from. Its hegemonic role was legitimized by the existence of a core of strong currencies surrounding the Deutsche Mark, allowing the country to impose its political preferences

Although the interventions were minimal since 1987, the legitimacy of Germany was completely lost during the currency crisis of 1992, when the countries were wroth against restrictive policies of Germany, which had as objective to contain the inflationary effects of its reunification. Moreover, the German attitude of conducting bilateral negotiations with countries that needed to devalue their currencies (notably, Italy, Spain, Portugal and Ireland), proposing to reduce its interest rate, if those countries agreed to realign their currencies within the system delegitimized the regime. Ignoring the competence of the Monetary Committee, Germany displeased France too much and its efforts were not sufficient to keep Italy and the United Kingdom within the EMS (KAELBERER, 2001; KALTENHALER, 1998; SINN, 2015).

What led to the unsustainability of the situation was the search for the removal of non-tariff barriers that prevented the free movement of goods, services and capital and people, which took shape with the ratification of the Single Act in 1985, deepening the interdependence within the EEC. As highlighted by Eichengreen (1994), the capital flows liberalization would result in the inability of governments to stabilize their exchange rates, unless they orientate their monetary policies to this single goal.

Given the economic convergence observed during the decade of 1980, it would not be possible for Germany, however, continue enjoying the European monetary cooperation within the framework of the asymmetric EMS. In addition, the continuity of the policies dictated by the Bundesbank, preferable to a group of Member States at the expense of others, but that impacted everyone, would tend to give rise to tensions within the regime. Under the French

perspective, a monetary union would be the best alternative for the preservation of exchange rate stability, without the need to maintain its economic policy submissive to another country, ending, so the German domination in the issue. The introduction of the convergence criteria – Protocol on the Convergence Criteria (Protocol No. 13) and the Protocol on the Procedure Concerning Excessive Deficits (Protocol No. 12) reflected the German preferences regarding the economy convergence.

The constitution of the European Central Bank (ECB) would be a controversial point in the debate. According to Kaelberer (2001, p. 182), the countries with strong currencies demanded “the political independence of any eventual central bank, following the model of the German Bundesbank and a constitutionally guaranteed commitment of the ECB to the goal of low inflation”. However, not enough the fact of the supranationalism of the ECB, by itself, undermine the ability of governments' actions – because there would be no submission to the European Council – this would mean that the traditional means by which other countries managed their monetary policies would be completely changed. Germany was not able to commit to the EMU if this compromise its economic stability. The absence of credible threats from these states and the fact that they needed Germany in the regime was what determined the final outcome.

From 2002 to 2016, Germany would register growing current account surpluses, while other countries, in their majority, would manage with difficulty their trade deficits. Second largest economy in the Euro zone, France, in 2007, would register a trade deficit of US\$8.7 billion, which would increase to \$28.2 billion in the following year. Vaubel (1976) argued that although ending the problem related to speculation changes, the formation of a monetary union can cause problems related to the change in real exchange rates among the members of the union. In agreement with Vaubel (1976) and Mundell (1961), the increase in the income of a country has as a direct effect the increase of its imports, culminating in the imbalance of current account. Once there is no possibility of using nominal exchange rates as a way of correcting these imbalances in the external sphere, adjustment must necessarily take shape in the domestic sphere.

The main problem that could result from a monetary union under these circumstances would be, then, the unequal growth of national income and, more importantly, the unit cost of labor. In this way, Germany was able to inadvertently expand the exploitation of European markets, not only because of its recognized levels of competitiveness and productivity, but mainly because of the country's wage levels, according to Thimann (2013). The concern of the German government with its international competitiveness and price stability is seen as the

main cause for the insignificant evolution of the country's wage levels since the introduction of the Euro.

According to Baldwin and Wyplosz (2009), in an optimum currency area, fiscal transfers are necessary means to contain possible shocks. In fact, according to Newman (2015, p. 121), when it was founded, “there was an implicit redemption commitment within the monetary union”, with the “markets assuming that national bonds had the support of the whole Union”. If within the EMS Germany took the leadership of the regime without significant costs with little contestation, this time the supranationalization of national debts would be somewhat a radical and costly response for the country – but reasonable, when we consider the monetary union as an unfinished construction. For Newman (2015), Germany's lack of response to the crisis, however, “would reveal Germany's caution in playing the role of guarantor in this position as a regional hegemonic power”.

The position of Newman (2015) justifies the argument that the countries in delicate situation imposes a risk to the monetary union. In fact, the situation of those States puts in question the Euro in front the international financial markets. According to Newman (2015, p. 123), the moral hazard within the Euro zone is linked to the belief of markets that an eventual redemption would denote an implicit commitment of a state in helping others, spreading “the problems of financing beyond small economies such as Greece and Ireland to systemically important countries such as Italy, Spain and even France.” From the purely economic point of view, the idea that the markets may react negatively to the introduction of a fiscal union to finalize the Euro zone, would justify the reluctance of Germany to assume the costs of the project.

On the other hand, if accomplished, a fiscal union would consolidate the Germany as the country responsible for the provision of collective goods and uncontested leader of the regime, placing it as hegemony within Europe. However, the country would offer only an austere economic agenda, justified by the argumentation, according to Newman (2015), that the others Member States in a condition beyond their means.

V. CONCLUSION

In this study, we emphasized the process of international cooperation as a means of reconciling conflicting interests and the formation of international regimes as an important element for economic development. Representing a great political achievement, the European Union and its various regimes gave clear examples of how the joint action between the States

may result useful. Circumstantial to this process, the interdependence among its Member States and the issues that permeated them manifested themselves especially after the constitution of the EEC. Throughout this course, however, was substantiated by the stable economic order of the decades of 1950 and 1960 which allowed Member States to deepen their economic relations and manage, the integration of the continent. The collapse of the Bretton Woods institutions and in particular the reluctance of the United States to continue adjusting its monetary policy to the needs of other countries, conducting, thus, trade liberalization, by means of economic stability, had as an immediate consequence the need for the countries of the EEC to seek a new arrangement, which adhered to their interests.

Germany would accept the project and provide the stability expected by other Member States of the EEC, but would not oppose manifestly national interests. Since then, the country would dominate the monetary issues of EEC until, in the face of the foundation of the European Union, a new currency was introduced, in order to uproot the currency problems that disturbed the Single Market and hindered the administration of national policies. The Euro is the response of the European States to global markets and represent the final shot in a project of integration that has already lasted nearly forty years. However, the expectations surrounding the project of monetary union and realize that Germany would be taken from the central role of the arrangement were frustrated.

The introduction of a single currency would eliminate the ability of states to make external adjustments as a mean of gaining competitiveness and rebalance their trade balances. At the same time, Germany consolidated itself as the main exporter of the bloc and as the main deficit financier. This situation could suggest that an eventual German hegemony is inherent to the process of European integration. However, as demonstrated, Germany, until the 1970s, had no ability to lead the project. In other words, the current situation is the result of a process and its developments and the power of Germany is not founded on economic resources that allowed the country to induce the integration process, but in the provision of collective goods that meet the interests of other States involved, in the form of monetary arrangements.

Today, we can say that Germany has all the necessary conditions to actually represent a hegemony in the EU, but we must have a clear picture of the circumstances that led to this situation. Currently, the country is the largest European economy, but the Euro zone is where its power lies and that power does not take the form of economic resources, but of institutions that reflect, to a greater or lesser degree, your preferences. However, Germany is reluctant to take the tour of continental power and carry the economic burdens of the project of European integration. The Federalization of the national debts would mean, in its turn, the provision of a

collective good, taking into account the interests of other States, but would result in the need for greater involvement of those States on other issues, leading to a situation of complex interdependence, in which Germany could have their power extended far beyond the monetary issues or would cost the country its historical monetarist bias towards the management of its economy.

As an example of the difficulties of reconciling interests around a fiscal union, we can mention the recent Covid-19 crisis: as a way of alleviating the economic effects of the pandemic, the ECB announced an asset purchase program. But the Bundesbank, with its historical reluctance to accept measures that would increase the country's monetary base, has sued the ECB through the Germany's Federal Constitutional Court¹⁷. Although the States avoid to discuss such a problem, the evolution of the Target2 balance is set to bring them to the negotiating table, once Germany could be forced to bailout the rest of Europe¹⁸.

It is clear that the country's reluctance can both derive from an analysis that takes into consideration the economic sustainability of providing a collective good, as well as factors related to the recent past of the country – after all, to have a renewed and powerful Germany within Europe would rekindle other questions. Despite that, the history of the European Union demonstrates that its Member States is set to act in moments of crisis and answer them with deeper integration. Therefore, we suggest that the country's position in relation to the fiscal union, in view of the most recent events, could be analyzed in new research.

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¹⁷ See Mussler (2020).

¹⁸ The Target2 is the Eurosystem main platform for processing large-scale payments across the Eurozone. Since the Euro crisis, the increase in balances differentials in favor of Germany is increasing the country's risk, if we consider the possibility of another state declares insolvency. See Sinn (2015).

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