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HOW TO SOLVE THE RIDDLE OF BELATED EURO CONTESTATION IN THE NETHERLANDS?

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1 INTRODUCTION

Monetary issues are usually left to economic experts at two removes from the electorate. In fact, standard World Bank prescriptions regarding ‘good governance’ in developing countries conventionally entail the prescription to establish an independent central bank in charge of monetary policy. Both for good intrinsic reasons – monetary policy making is too complicated to be left to political dilettantes – and for good extrinsic reasons – monetary stability is too important for collective economic well-being to be subjected to the whims of the electoral cycle (MacNamara 1998). This type of reasoning can easily explain the rather smooth policy trajectory leading up the introduction of the euro in the Netherlands. As Dutch public polls show, support for the European project in general and European monetary and economic integration in particular has always been comparatively high in the Netherlands, as is public trust in the reliability of the Dutch central bank. Even the material replacement of the Dutch guilder – one of the oldest currencies in the world and, from the mid-1980s onward, a beacon of monetary stability – by the euro in January 2002 did not generate strong feelings of protest. However, in the build up to the 2005 referendum on the European Constitutional Treaty public complaints about the euro and the inflationary price increases it had supposedly caused, suddenly flared up. According to many observers, public discontent with the euro contributed substantially to the Dutch rejection of the Constitutional Treaty. This raises the question why the euro only became contested *ex post factum*. Was it because of a wider societal dissatisfaction with the state of the economy that got projected onto the euro, but which had in fact nothing to do with the onset of the economic recession in 2002? Was it because of what was initially ‘framed’ as a neutral, technical matter in fact turned out to be ordinary distributive politics with diffuse costs for many and highly concentrated gains for some? Or was it because of an unfortunate confluence of a number of small policy mistakes that could easily have been prevented?

It is the latter explanation that is preferred by the Dutch political elite. For instance, then Minister of Finance, Gerrit Zalm, stated bluntly in an interview with the *NRC Handelsblad* in 2002 that the beneficial macro-economic effects of the euro had been spelled out time and time again and hence that politicians were not to blame if the electorate preferred to listen to Marco Borsato (a popular Dutch singer) instead of reading the public statements on the euro (*NRC Handelsblad*, 2 January 2002). In other words, it is the stupidity of the voter that is behind the belated Dutch contestation of the euro, rather than the arrogance of the political elite. The second explanation is a theoretical one and is derived from a rational choice perspective within the political sciences that is known as ‘actor-centered institutionalism’ (Scharpf 1997). This explanation is based on the well-known distinction of Fritz Scharpf according to whom collective decisions follow either the pattern of pure problem solving or

the pattern of a zero sum game. Normatively speaking, problem solving is distributively neutral and can hence dispense with strong democratic legitimacy requirements. This is not the case with distributive games. Since some are stand to lose while others win, the acceptance of the outcomes by the losers requires more than effective collective decision-making. Applied to the case of the euro this would suggest that what was initially 'framed' by political and economic elites as a matter of pure problem solving was slowly 'reframed' by other political agents as an issue of distributive politics with diffuse costs and concentrated gains. The final explanation is premised not so much on rationality and perfect knowledge but rather on complexity and human fallibility, resulting in policy mistakes and allowing for unforeseen contingencies. In this perspective small mistakes can have huge consequences, while the solution for decision making lies not so much in better informed policy maker as in better policy making procedures (Bovens & 't Hart 1996).

The paper begins with a reconstruction of the discussions surrounding the introduction of the euro in the Netherlands, starting with the beginning of the preparations in the early 1990s right up until the Dutch referendum on the Constitutional Treaty in mid-2005. To do so, the thirteen years it took to get from the Treaty of Maastricht in 1992 to the rejection of the Constitutional Treaty in 2005 is divided up in three parts: preliminaries, the actual introduction (itself consisting of three phases) and the aftermath. This section is largely based on reporting taken from *NRC Handelsblad*, two other Dutch dailies, as well as some secondary literature. Throughout, I give Eurobarometer opinion poll data to illustrate the interaction effects between public claims making by political agents and the perceptions of voters. Section three focuses on the issue of price rises as a result of the introduction of the cash euro. In particular it seeks to answer the questions (i) whether the euro had in fact caused price inflation, (ii) why Dutch voters perceived that to be the case, and, finally, (iii) how and why the introduction of the euro could play such an important role in the rejection of the Constitutional Treaty. Section four addresses the question if and how Dutch policy makers could have prevented the mid-2005 contestation over the euro.

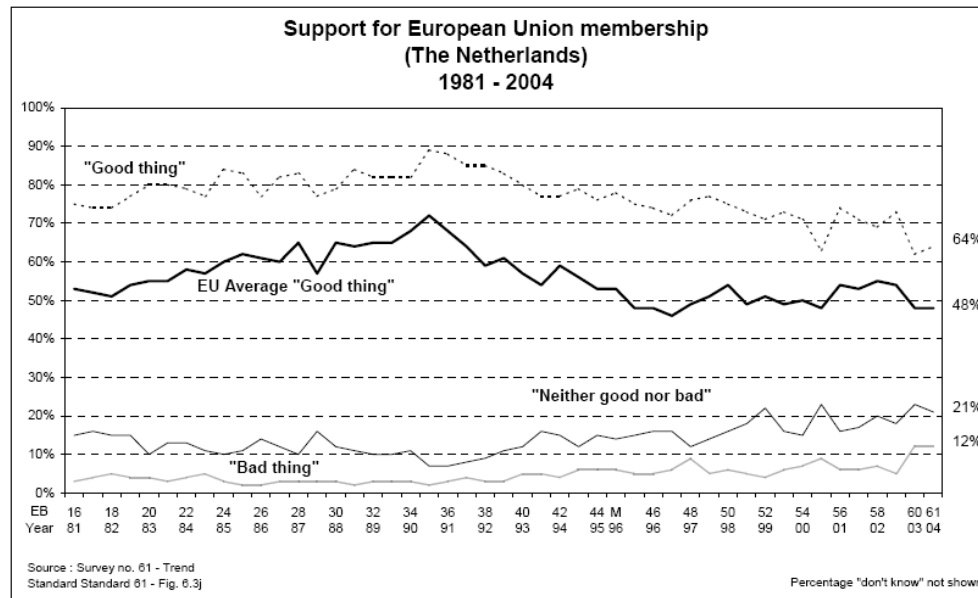
2 THE INTRODUCTION OF THE EURO IN THE NETHERLANDS

The Netherlands was one of the few member states that in the immediate aftermath of the formal agreement over the Maastricht Treaty appeared to be largely disaffected by the wider European electoral backlash against the European Union, its elites, its formal institutes, as well as the idea of ‘market making’ or ‘negative integration’ for which, according to many, it stood. Despite experiencing an identical reversal in economic fortune, the ratification process in Dutch parliament proceeded smoothly — only the Green Party and small Christian parties were against monetary integration — while public opinion largely remained in favor of European integration, albeit without any strong involvement. Even as late as 9 December 1995, the *NRC Handelsblad* could report: ‘In the Netherlands people have remained largely indifferent to the prospect of losing their 300 year old currency.’ Disregarding a glitch in public support for the euro between 1997 and 2000, the actual introduction of the euro on 1 January 2002 was actually celebrated as if it really were the historical occasion that it actually was. In the Netherlands the electoral backlash did not come right after the introduction, but rather with a delay of four and a half years, raising the question what would have happened if the Dutch political elite would have decided to gauge the electoral sentiment on monetary integration and the replacement of the guilder right after the Maastricht Treaty, as was done in Denmark and France. In May 2005, just a fortnight before the Dutch referendum on the Constitutional Treaty, the *NRC Handelsblad* captioned: ‘Dutch citizens will vote for the euro after all. Referendum is dominated by euro’ (*NRC Handelsblad*, 19 May 2005)

The received wisdom is that the so-called ‘age of permissiveness’ (Lindberg & Scheingold 1970) during which the elite-driven project of European integration could count on silent public support, allowing the elite to dispense with strong legitimating narratives for their political actions, came to an end with the arduous ratification of the Maastricht Treaty in 1992, and was replaced — from 1995 onward — by the so-called ‘era of dialogue’, during which European elites strove to create a more symmetrical relationship with their constituencies in order to restore their legitimacy (Mak 2001: Ch. 3 and 4). Not so in the Netherlands. Eurobarometer-data suggest that well into the 1990s the general public kept supporting the European project to a much higher degree than in other member states, even though voter turnout during EP elections was lower than the European median.

The first breach between the Dutch mass and its elite concerning Europe occurred in 1995 when the Delors II package turned the Netherlands for the first time in the history of the European Union into a net contributor (Mak 2001: 140). Further breaches became apparent when the date for the final euro conversion approached. According to the European Value Survey, the confidence of the Dutch public in European institutions declined rapidly in the

late 1990s to reach a provisional low in 2005 (Prast et al. 2005). While the Dutch used to be the most supportive of European integration, since 1991 it has become increasingly less supportive (Halman et al. 2005), even though Dutch citizens are still among the three most supportive (together with Ireland and Luxembourg) of the project of European unification.



Source: Standard Eurobarometer, No. 61, July 2004.

Why did the age of permissiveness come to an end when it did and what role did the introduction of the euro play in its demise? In order to answer these questions I will describe in some detail the particularities of the introduction of the euro in the Netherlands as well as how the project of monetary integration was presented to the Dutch public by its political and economic elites. To do so I follow the three phases of European monetary integration as laid down in the *Green Paper on the Practical Arrangements for the Introduction of the Single Currency* of 31 May 1995 (EC 1995). According to this document the final stage of monetary integration would consist of three phases. During the first phase, which would start in May 1998 and end in December 1998, the number of participating countries would be determined by means of the criteria of the Growth and Stability Pact and the rates against which national currencies would be converted in euros would be fixed. January 1999 would then mark the official introduction of the euro as a universal accounting standard, requiring banks and large firms to reconstruct their financial administrations and financial interactions upon the euro as the accounting unit. This phase would end in December 2001, when the cash euro would finally be introduced and would fully replace the national currencies of the participating countries. This phase would take only a couple of weeks. However, in order to capture public reflections on political discussions surrounding the determination of the timetable itself as well as the conversion rates, I start with a subsection devoted to preliminaries and preparations, covering the period 1992-1998.

2.1 Preliminaries and Preparations: 1992-1998

Until 1995, the public discussion concerning European monetary integration in the Netherlands was dominated by stories about: (i) whether Greece, Portugal, Spain, Italy and Belgium would be able to comply with the criteria of the Growth and Stability Pact; (ii) the backlash against the Maastricht Treaty in Germany, France, Great Britain and Denmark; (iii) the strains within the European Monetary System; (iv) and the ins and outs of EU-decision making and institution building. A smaller number of contributions dealt with normative issues and either discussed monetary integration as a solution to the problem of speculative currency trade or admonished Dutch political elites to speed up the process of Dutch welfare restructuring in order to be able to comply with the convergence criteria. Critical voices were largely absent, reflecting the widespread consensus among Dutch opinion leaders – whatever their political hue – that European integration served Dutch interests and was hence a good thing.

I took until 7 December 1995 before details about the concrete effects of the actual introduction of a single European currency reached the Dutch press. A week before the Council Meeting in Madrid where the scenario for the introduction would be determined as well as the name of the new currency, the Dutch Society of Banks ('Nederlandse Vereniging van Bankiers') announced that it expected total costs of the conversion to top 20 billion guilders and that it would take three to four years to convert all ATM's in Europe (120 thousand) to the new currency. Finally, it argued that the costs of the conversion should not be carried by the banks alone but should be distributed fairly between banks, firms and private account holders (*NRC Handelsblad*, 7 December 1995).

From that moment onward, news coverage started to focus on the specifics of European monetary integration instead of the larger issues involved. This coincided with the phase decision making at the European level had reached. For it took until May 1995 before decisions about the actual trajectory of the euro introduction were made. As a result, national discussions before that date tended to focus either on the functionality or dysfunctionality of monetary integration as such or on the many macro-economic uncertainties surrounding the European Monetary Union (EMU).

Contrary to experiences in other member states, though, in the Netherlands silence reigned supreme before 1995, while afterwards discussions on the specifics predominated over fundamentals. As such, further going European monetary integration never was politicized in the Netherlands. Reflecting this, the preparation for the introduction of the euro could also follow well-tried Dutch corporatist, de-politicizing strategems. Since the implementation of

the paragraphs concerning monetary integration was by and large the responsibility of national governments, each of the member states used a distinct institutional framework to prepare for the introduction of the euro. In the Netherlands, responsibility for these preparations was devolved to the so-called National Platform for the Introduction of the Euro (in short: the National Platform), established by the Ministry of Finance in February 1996. This body was supposed to meet four times a year under the auspices of the Minister of Finance and was mandated to inform the Dutch public of the coming changes, to coordinate the preparations for the actual introduction and to function as a sounding board for firms, interest groups as well as citizens.

What was striking about the National Platform was, first, that it fell under the responsibility of the Ministry of Finance rather than the Ministry of Foreign Affairs, which is normally responsible for European issues. This clearly indicates the distinct status that monetary issues have in the Dutch polity. The side-effect, though, was that its agenda was dominated by financial experts who were wary of the input provided by non-financial interest organizations. The second striking thing is that the National Platform was composed of high-level representatives of an extremely large number of different civil associations. Among the participating organizations were 'usual suspects' like the three large labor union federations (FNV, CNV and MHP), the Dutch employer organization (VNO/NCW), the Central Bank, the Dutch Banking Association (NKB) and the Dutch organization for SME's (MKB Nederland), but also interest groups such as the Dutch consumer organization, the Council of Dutch Retailers, the Chamber of Pension Funds and Insurers and the Dutch organization for the agricultural sector.

Such a broad based representation of societal interests did not so much reflect an anticipation of possible societal controversies concerning the introduction of the cash euro, but rather the intention to include as many as possible avenues for obtaining information in order to ensure effective problem solving. Underlying was the premise that the introduction of the euro was a purely technical, logistical operation that was distributively neutral and devoid of ideological implications and was hence in no need of political legitimation. Moreover, the initiative within the National Platform was clearly on the side of the monetary and financial experts, who used the other members of the platform, rather asymmetrically, as information providers rather than as co-deciding peers. The collaborative approach adopted by the Dutch government was also reflected in the main slogan chosen for the introductory campaign: 'The euro is of us all' ('De euro is van ons allemaal').

The third striking property of the platform has to do with the relatively late start of the campaign. Large scale campaigning activities did not begin before 1998 when the European

Commission (EC) had decided which countries were going to participate and had officially given the kick off for the second phase (Mak 2001: 153ff.). According to Mak this was both a reflection of the lack of controversy in the Netherlands over monetary policies in general and an outcome of a well-considered information strategy of the Ministry of Finance aimed at presenting Dutch voters with a political 'fait accompli' (Mak 2001: 155).

It was only in 1997 that the first signs of a breakdown of the consensus in the Netherlands became visible. In the beginning of 1997 there were two high profile public interventions, one from the right and one from the left, which finally spawned public debate and could well account for the sudden drop in Dutch public support for the euro in the spring of 1997 (see Mak 2001: 142). In an interview with the *NRC Handelsblad* the then-leader of the Dutch liberal party (and later European Commissioner), Fritz Bolkestein, voiced concerns related to the sustainability of the EMU and the effectiveness of the Growth and Stability Pact as a guarantor of the macro-economic convergence that monetary unification required (*NRC Handelsblad*, 11 February 1997). In this, Bolkestein largely reiterated the orthodoxy among monetary experts that had been voiced just a month earlier in the same daily by the American economist Lawrence Lindsey (*NRC Handelsblad*, 22 January 1997). What was typical of this intervention for the Dutch position on European monetary integration was that the wisdom of the project of integration itself was not in doubt but rather its facilitating conditions. Basically, the stance was that other member states would be expected to fail to practice the monetary austerity that was the hallmark of Dutch policy making and that was, or ought to be, the foundation of European monetary integration too.

This was not the case, though, with the intervention from the left. In a contribution to the left wing daily *De Volkskrant*, a group of 70 heterodox economists voiced complaints against the expected socio-economic effects of the Growth and Stability Pact as well as against the monetarist hue of the European Central Bank, which was seen to preclude the possibility of monetary expansion as a means to kick start economies, and called for an extensive debate on the pro's and con's of the EMU (*De Volkskrant*, February 13, 1997). As such, this intervention had less to do with the specifics of European monetary integration and more with the overwhelming dominance within academic economics as well as economic policy making of what was explicitly called the 'monetarist' orthodoxy. Played out against the monetarist mainstream was an expansionist economic policy based on new-Keynesian insights (Reuten et al. 1998). In other words, this was a dispute about the nature of European monetary integration fought out in the domain of economic expertise that, however, failed to reverberate with the concerns of the Dutch public. The 'battle between economic models' that the group of 70 sought to kick-start in the Netherlands was largely perceived as untimely

within the context of the economic successes of the Dutch 'poldermodel' of that time. However, it would return, with a vengeance, eight years later.

Despite these flurries of more principled debate over the rationality of European monetary integration as such, the larger debate in the Netherlands focused mainly on the technicalities of the effects on its hard currency tradition of possible relaxations of the membership criteria. Tellingly, in the buildup to the final decision of the European Council on EMU-membership in 1998, there appeared a large number of contributions from high ranking Dutch officials and opinion leaders on possible scenario's for the EMU based on the ability of countries like France and Germany to keep their budgets within the EMU range and the possible consequences this would have for the Netherlands. That the discussion focused so much on other member states was related to the fact that the Dutch economy was doing extremely well at the time, allowing the ruling coalition of liberals and social-democrats to clean up state deficits and focus on job creation. In other words, contingent economic circumstances as well as a cast of mind that was the product of a centuries long tradition of free trade that befitted a small, open economy, resulted in a more or less society wide acceptance of the monetarist mainstream on which the EMU was supposed to be built. The upshot, however, was that public support for the euro declined. Between the autumn of 1998 and the spring of 1999, the percentage of Dutch respondents that were 'in favor' of the euro diminished with ten percentage points (Mak 2001: 143). The doubts voiced by Dutch elites about the rationality of a monetary union encompassing 'soft currency' states clearly fed back into the perceptions of the larger public.

2.2 The Introduction of the Euro

Phase 1: May 1998 - December 1998

The announcement of the European Parliament that it had agreed with the conclusions reached by the European Council and the European Monetary Institute that eleven member states complied with the criteria of the Growth and Stability Pact and would hence be allowed to participate in the euro, marked the start of the first phase of the actual introduction of the euro. The participating countries were: Germany, France, Belgium, Italy, Spain, Portugal, Luxembourg, Austria, Ireland, Finland and the Netherlands. Only Greece did not comply with the criteria at that time, but would be allowed to opt for membership later on. Denmark, Sweden and the United Kingdom used their right to opt out of the EMU but held open the possibility to join later. To dispel fears on the side of 'strong currency' countries like the Netherlands and Germany that countries like Belgium and Italy would renege on their promises to bring down their public debts substantially, the Dutch Minister of Finance, Gerrit Zalm, succeeded in gaining support for his proposal to expedite the application of the Growth and Stability Pact with six months.

However, in Dutch newspapers this was largely drowned out by Dutch rumpus over the horse-trading that ensued over the presidency of the European Central Bank. While former Dutch Central Bank president Wim Duisenberg was the favorite candidate of 14 of the 15 member states, the French appeared to be unwilling to accept a Duisenberg appointment. Instead, they favored the presidency of Jean-Claude Trichet. Since the appointment had to be unanimous, a compromise had to be found. After prolonged negotiations it was finally decided that Duisenberg would step down half way during his presidency, after which Trichet would take over. The uproar was enormous in the Netherlands. Ostensibly because it was in clear breach of the Treaty requirements, which stipulated that the term was eight years and that a successor would be appointed only after the term, had finished in order to ensure continuity and political independence. But the subtext was the budding mistrust of a 'junior partner' vis-à-vis the larger member states, especially France and Germany. This was reflected by comments made by Prime-Minister Wim Kok for Dutch television, when he stated that most had been made of a win or lose situation — 'It was either four years of a Duisenberg presidency or no presidency at all' —, while referring to the failed attempts of the last couple of years to get prominent Dutch politicians appointed on high profile supra-national positions in order to make the compromise over Duisenberg stand out as a victory.

It was decided that January 1999 would mark the second phase of the official launch of the euro. This phase would entail the introduction of the cashless euro and implied that banks and firms would have to reconstruct their financial administrations upon the euro as the unit of account. For as from January 1999 onward, all national and international cashless settlements within the realm of the euro-11 as well as between the euro realm and the outside world would have to be conducted in euros. On top of that, banks were obliged to inform their private clients of the value of their transactions and accounts in both euro and national currency terms. It is obvious that such an operation entailed substantial costs. As such, it comes as no surprise that with the approaching of the actual euro introduction an upsurge can be observed in the number of news reports on distributive issues. In the same month that the Dutch Minister of Finance was able to announce that the flipside of the euro-coins would continue to carry the portrait of the Dutch queen, there was a row within the National Platform between the banks and SME representatives over the distribution of costs. Complaining about arrogance and pushiness on the side of the banks, the SME-representative claimed both a longer conversion period for the introduction of the cash euro in January 2002 and more generous compensation from the state for the financial burdens his members were to shoulder. Similar concerns were voiced by the representative of the Dutch consumer organization. She too perceived the National Platform as being dominated by the interests of the large financial players (Mak 2001: 154), which in the Dutch context have always served a

public function in terms of providing fiscal information to the Dutch tax authorities and by closely cooperating with the Dutch monetary authority as a reflection of a shared responsibility for the efficiency and stability of the Dutch financial infrastructure. This could well explain why newcomers to the domain of monetary issues like the SME-organization or the Dutch consumer organization, who were merely there to provide information about possible bottlenecks and were largely left out of the actual decision making, felt marginalized.

Phase 2.: 1998 – 31 December 2001

The conversion rate of the Guilder against the euro and hence the value of all guilder-denominated holdings vis-à-vis the holdings denominated in the other participating currencies, was determined by the guilder value of the European Currency Unit (ECU) at the closing of the markets on 31 December 1998 and was put at the unwieldy figure of guilder 2,20371 per euro. While at that time perceived as a mere technicality, in May 2005, just before the referendum on the Constitutional Treaty was to take place, a high official of the Dutch Central Bank suggested that the actual conversion rate did undervalue the guilder and hence might have resulted in a higher level of price inflation in the immediate aftermath of the introduction of the cash euro, creating a major row which fed into the discontent that led to the Dutch rejection of the Constitutional Treaty. I will discuss that episode in more detail below.

Moreover, Eurobarometer data show that the conversion rate mattered in a psychological sense too. In Germany, Finland, Belgium and Luxembourg, multiplication of existing prices with a single digit sufficed to generate an accurate approximation of the euro value, without having to conduct any ‘vicious’ rounding up. Because of that, it was relatively easy for consumers to converse actual prices in euro prices, providing a sort of ‘natural’ control on the pricing policies of retailers and wholesalers. This was not the case in countries where the conversion rate required a more elaborate multiplication, as was the case in the Netherlands, Austria, France and Greece, where the conversion rate required a much more complex calculation (Eurobarometer, May 2002). Because of that complexity there appears to have been less of a ‘natural’ consumer control over the process of price conversion than in other countries. Moreover, especially in Greece and the Netherlands, the conversion rate was such that the calculation technique most easy to memorize (in the Dutch case: multiplying by two and adding 10 percent) resulted in a (slight) underestimation of the real costs and hence in a ‘money illusion’. Apart from the opportunity of abuse the resulting temporary price opaqueness might have given some retailers, in some cases, most notably Greece and the Netherlands, the actual conversion rate and the mnemonic techniques used by its citizens resulted in a strong perception of price inflation that was largely unrelated to real price increases.

The actual start of the European Monetary Union went smoothly, resulting in triumphalist news reports and commentaries in Dutch newspapers. The introduction of the cashless euro was heralded as the first step to political unification, while the euro itself was predicted to become a main competitor for the US dollar as the international store of value (*NRC Handelsblad*, 4 January 1999). Moreover, news reports announced that the international financial markets had rewarded the introduction with a rise of the euro against the dollar, while the stock exchanges too had responded positively. Indeed, in the first couple of weeks of 1999 all the macro-economic promises and expectations regarding the international financial status of the euro seemed to become true. Optimism reigned supreme, as was indicated by the request of the Belgium Minister of Finance to accelerate the introduction of the cash euro with several months because European consumers seemed to accept the euro more readily than expected.

However, this optimism rapidly waned when the euro started to slip against the dollar. As soon as March 1999, two months after the introduction, news reports began to appear in the Dutch press about the fears of higher inflation and hence higher costs of money caused by the declining exchange rate of the euro against the dollar. According to commentaries this was caused by a rapidly widening divergence of the growth trajectories of the American and European economies. Whereas the US booked bumper growth figures, the economic performance of the European Union remained subdued because of continuing economic troubles in its largest economy, Germany. The exchange rate-effects of this divergence were further exacerbated by continuing calls from the new German Minister of Finance, the socialist 'radical' Oskar Lafontaine, on the European central bank to lower its interest rates in order to make capital cheaper, enhance investment and speed up economic growth.

In the Netherlands in particular these calls were regarded with suspicion, raising worries on the side of Dutch elites that in the Europe-wide contest over the nature of the EMU the Dutch 'hard currency' point of view would become marginalized now that the Germans were apparently willing to abandon it. Telling is the quote of one of the four German economists who challenged the constitutionality of the German ratification of the Treaty of Maastricht before the German Supreme Court in an article of the *NRC Handelsblad* of November 1998 that 'the Netherlands is becoming isolated in the European Union with its hard currency policy' (*NRC Handelsblad*, 4 November 1998). Large was the relief of the Dutch establishment when Lafontaine resigned in the spring of 1999, indicating that the battle over the EMU between the 'monetarists' and the 'new-Keynesians' was, at least for the moment, decided in favor of the former.

This type of reporting dominated the Second Stage. Increasingly the link was made between the declining value of the euro vis-à-vis the dollar and the highly political nature of the macro-economic fundamentals as laid down in the Stability and Growth Pact. Telling in this regard was a contribution by Balkenende (the later Prime-Minister) and De Koning in the *NRC Handelsblad* of August 27, 1999, which summoned the Dutch government to keep their colleagues to the membership criteria as agreed upon in the Dublin-agreement and be more strict with regard to future transgressions. The summon ended with a forceful: ‘The task of Dutch EMU-diplomacy should hence be: Watch Dutch and European interests!’

The tone of voice of this contribution was characteristic of the stance of the Dutch concerning the fate of the euro and the EMU. Since the Dutch economy continued to outperform its neighbors and the Dutch government had hence no trouble reducing its budget deficit and its public debt to the level required by the Growth and Stability Pact, the Dutch government became increasingly isolated in the European arena where even the Germans were willing to soften the criteria in order to gain more leeway in coping with the growing costs of German reunification and were hence increasingly inclined to grant traditional ‘soft currency’ countries similar freedoms. While formally the Dutch government presented itself as the last remaining guardian of monetarist purity, partly to accommodate the ‘hard currency’ image with which the EMU was sold to the Dutch public, in practice its standpoint was more ambiguous than that. First, because, as a small and open economy that is increasingly dependent on rising exports to the US for its economic well being, the loss of value of the euro against the dollar was a clear short term boon even though it’s long term costs because of higher inflation and other price disturbances might ultimately be much larger. And second, because within the European arena Prime-Minister Wim Kok and Minister of Finance Gerrit Zalm were forced to grant some of the wishes of their colleagues if they wanted to realize at least some of the Dutch’s. The free mandate and *ex post* accountability-mode in which Dutch delegates to the European Council operated, resulted in a gradual drift of the coalition partners concerning the non-negotiability of the criteria of the Growth and Stability Pact and a growing rift between the governing parties and the opposition. It is of this internal rift of which Balkenende and De Koning’s contribution attested.

Halfway through the second phase, in May 2000, when the euro had lost about a quarter of its introductory value against the dollar, Dutch citizens remained largely disaffected by the wider political turmoil over the declining value of the euro. Eurobarometer polls suggested that the Dutch public was well informed and that Dutch society was well-prepared for the actual introduction of the cash euro in 2002 (Eurobarometer, July 2001). However, at the same time the lack of enthusiasm for the euro was a cause of worry. A representative from the NIBUD, a public advisory council for household budgeting, stated that the Dutch consumer

was at best indifferent to the euro. The fact that the NIBUD received no requests for information on the euro from the public was typical of a widespread indifference, according to this spokesperson, and reflected the late and tame start of the Dutch information campaign. Countries like Belgium, France, Portugal and Spain had started much earlier. A spokesman for the Dutch SME organization noted that his constituents had become slightly wary of the euro. The Dutch consumer organization too claimed that consumers were largely indifferent to the disappearance of the guilder and its imminent replacement by the euro (*NRC Handelsblad*, 1 May 2000).

Late 2000, when the fall of the euro against the dollar was finally halted, public discussion increasingly focused on the more quotidian aspects of the introduction of the cash euro. The scenario's leading up to the introduction gradually gained detail and precision. In May 2000 the National Platform announced that government and employer organizations had reached a covenant that obliged retailers to double price their products from July 1, 2001 onward up until the actual introduction of the physical euro in 2002, much later than in Germany. After that, dual pricing was no longer obligatory, a fateful decision, as it turned out to be (see below).

Typically Dutch too was the distribution of responsibilities for controlling whether or not firms and organizations abused the introduction of the cash euro and the temporary price opaqueness it entailed to increase consumer prices. While this danger was clearly recognized at an early stage of the introduction campaign, experts downplayed its probability because of the rationality of the consumer and the downward effects of competition, which was supposed to be enhanced by market integration and the Europe wide transparency that the euro introduced. In fact, the idea that the introduction of the euro could result in price rises went against the grain of the main economic rationale for its introduction in the first place. Price rises would at worst be a short-term effect only and would be more than offset in the long run by price decreases. Moreover, the instrument of a state imposed 'price stop' was deemed to be unsuitable and too heavy-handed. Instead, the Dutch consumer organization was asked to publicly name and shame firms and organizations that abused the introduction of the euro to increase consumer prices. To that end, the Dutch consumer organization announced in April 2001 the establishment of a so-called 'euromonitor' ('Euromeldpunt'), where consumers could report illegitimate price increases (*NRC Handelsblad*, 26 April 2001). On the basis of this information, the Consumer organization would list the names of the firms conducting abusive price policies on its website, in the hope that consumers would punish these firms by shifting their purchases to other companies, forcing these firms to adjust their prices downward. In other words, price control was left to a private organization, which had

only 'soft' mechanisms at its disposal to rectify economic agents and was dependent on consumers for its information.

The other issue that dominated news reports at this stage was the distribution of the costs of the conversion to the euro over the different parties involved. The Minister of Finance, in turn, announced in June 2000 that all Dutch resident would receive a congratulatory set of euro-coins, the so-called 'Eurokit', with a value of euro 3,88 right before the actual introduction in order to make the Dutch public acquainted with the new coins. The total costs of this gift were estimated at 120 million guilders, which made the Dutch campaign for the introduction of the euro one of the most expensive of all member states (Mak 2001). Moreover, because it implied a distribution of total costs between the EU and the Dutch government in which most was borne by the latter, the responsibility for the euro campaign too was largely born by the Dutch government, implying a more or less complete marginalization of EU agencies in the Dutch realm. Striking too was the absence of linkages between the national organizations represented in the platform and their European level counterparts. The result was a strict divorce between the European side of the euro introduction and the Dutch side of it. Since the presence of Dutch agents in the European policy arena was largely invisible to the Dutch public at large while European agents were physically largely absent in the Dutch political realm, Dutch citizens could gain the impression that that their representatives were mainly indifferent executioners of European decisions, which were, moreover, increasingly perceived as exogenous commands (Mak 2001: 162ff.).

The total costs of the euro conversion were estimated at 7,5 billion guilders, approximately 1 per cent of Dutch GDP. The largest part of this was born by the private sector. In particular, business services and SME's (which partly overlap) were presented with huge conversion costs. Most of these costs were caused by the necessary adaptations of accounting, payment and pricing systems. In fact, retailers effectively functioned as delegated distributors of the new euro. The Dutch banks also bore large costs in the magnitude of 1,4 billion guilders. Most of that, however, had already been spend in the aftermath of the virtual conversion to the euro in 1999, when the Dutch payment system had been converted to the euro as its unit of account. According to the Dutch central bank, the new euro-proof payment system had already become profitable for the Dutch banks, since they no longer had to bear the costs of exchange rates fluctuations, while they could still charge their customers for cross-border transactions. The remaining 1,5 billion was at the expense of the Dutch government and represented the costs of the production, storage and distribution of the coins and bills, the collecting of the replaced guilders, as well as the costs of informing the Dutch public by

means of advertisements, lectures, websites, commercials, brochures and the Eurokit (*NRC Handelsblad*, 1 November 2001)

As the start of the Third Stage came nearer and logistic planning become more detailed, the news reports too became increasingly practical. They focused on possible transaction delays because of conversion problems at counters and box offices; they described how the actual distribution was being organized by the Bureau Euro Conversion, which was set up by the Dutch central bank to keep oversight over the logistical operation; they mentioned the different agencies that were going to be used in different member states to distribute the euro over the different points of issuance: the *Bundeswehr* in Germany, the army, navy and air force in France, and the privatized mail service in the Netherlands. The overall tone of the reporting at this period was slightly self-congratulatory. Interviewees of the Dutch government and the Dutch central bank emphasized their pride over the efficiency and effectiveness of the conversion process, which would be the quickest and best organized of the entire EMU. Indicative was the decision to start distributing the euro only in December and limit the so-called dual period, during which both guilders and euros would be the accepted means of payment, to four weeks only: from January 1, 2002 to January 28, while most members states started as soon as September and took six to eight weeks to finish the conversion process.

Phase 3.: 1 January 2001 – 31 January 2001

It was a demonstration of Dutch logistical genius that everything went according to plan. The 64 (!) emergency scenario's that the Dutch Ministry of Finance had at its disposal in order to anticipate all possible contingencies, turned out to be just so many fantasies. In the *NRC Handelsblad*, the Minister of Finance, Gerrit Zalm, was quoted as stating that the actual conversion had proceeded according to 'the ideal scenario' (*NRC Handelsblad*, 2 January 2002). In many bars and disco's new years night was proclaimed to be 'guilder night' only, in order to keep transaction times as low as possible. Others had installed a 'point of exchange' near the entrance, where visitors could exchange their guilders for euros. And some firms had opted for a voucher system. Commentaries in the national newspapers heralded the new coin as a marker of a next phase in European integration with momentous effects for Dutch society and the Dutch economy.

While the second half of 2001 was largely dedicated to the practical consequences of the introduction euro, in the first weeks of 2002 the emphasis was once again on the larger issues which economic and monetary integration raised. For instance, Mark Kranenburg, political commentator of the *NRC Handelsblad*, proclaimed that the introduction of the euro in fact announced the end of the Netherlands, stating that Dutch politicians had only stressed the

economic advantages of monetary integration and had failed to elucidate its political repercussions, raising the question whether the Dutch political elite had done so on purpose or whether it was a measure of its naivety. He concluded with the statement that the answer was immaterial since the monetary integration of Europe had set in motion a logic that would ultimately result in more political integration (*NRC Handelsblad*, 4 January 2002). However, this philosophical intermezzo in the mostly practical nature of Dutch public discourse on European integration proved to be short lived.

2.3 The Aftermath

The self-congratulatory tone of the second half of 2001 rapidly turned sour in the first half of 2002. As early as January 31, a caption in the *NRC Handelsblad* read: ‘Dutch consumer organization raises its subscription prices’, an event that would probably had passed unnoticed if it had not been the very same organization that was publicly mandated to keep firms in line by publicizing the names of firms that used the introduction of the euro to raise to prices (*NRC Handelsblad*, 31 January 2002). As a result the neutral status of the Consumer organization was lost, while the list it published became highly politicized. A number of firms that were listed contested their listing successfully, forcing the Consumer organization to further investigate the consumers claims; a requirement for which it lacked both expertise and means. Only a year after its establishment, and three months after the introduction of the euro, the Euromonitor was closed down because of increasing controversy over its listings and lack of price reducing effects.

A couple of days later, the *NRC Handelsblad* reported new consumer price inflation figures, which made it clear that, contrary to expectations, inflation had not fallen back from its level of 4,5 per cent over 2001, but had remained at 4 per cent, between one and 1,5 per cent higher than in the EU as a whole. How come, the newspaper asked, and answered that it was caused by macro-economic overheating which was seen as the price one had to pay for the Dutch economic successes of the past seven years (*NRC Handelsblad*, 9 February 2002). A week later again, the paper reported that the introduction of the euro had not resulted in a convergence of European consumer prices but rather had made visible the price effects of different national tax regimes (*NRC Handelsblad*, 14 February 2002). In April, the paper reported that an increasing number of members of parliament were worried about the inflationary effects of the euro introduction and called for a public investigation (*NRC Handelsblad*, 25 April 2002). While initially functionaries of the Dutch Central Bank rejected claims of euro related price rises as being unfounded, in June they had to admit that the introduction of the euro could have added 0,2 to 0,4 per cent to overall inflation. Price rises were especially significant in the hotel and restaurant trades, in the DVD and CD retail business, but municipal parking tariffs and local taxes too had been raised during the euro

conversion (DNB 2002). The request from the Consumer organization to impose price stops in these branches was brushed aside as being incompatible with a free market economy by the Minister of Finance.

While real inflation rates have since these first tumultuous months slowly returned to European averages, Dutch citizens have remained distrustful of the euro. One year after the introduction of the euro, polls showed that of all citizens the Dutch felt most strongly that the introduction of the euro had been to the detriment of the consumer; 94 percent thought so against a EU average of 84. This corresponds with a large share of Dutch citizens being skeptical about the claim that the euro contributed to price stability. Only 28 percent of the Dutch did think that the euro helped stabilize prices, against 34 for the EU as a whole (Flash EB 139).

A year later (two years after the introduction of the euro) the picture was more or less the same. Together with citizens from Germany and Greece, Dutch citizens were most skeptical about the statement that the introduction of the euro contributed to price stability. 53 percent of Dutch citizens denied that, compared to 60 percent in Germany and 54 percent in Greece. The EU average was 48 per cent. Dutch citizens were also most outspoken on whether or not the euro had been advantageous. A stunning 46 percent found that not to have been the case, a figure that was only topped by German citizens, and was well above the EU average of 36 percent (Flash EB 153). Even in 2005, four years after the formal introduction of the cash euro, Dutch citizens still ranked last in the percentage of interviewees that answered affirmative to the statement that the introduction of the euro had been advantageous overall. Only 38 percent thought so, while the EU average was 51 (Flash EB 175). Meanwhile, real inflation rates in the Netherlands had declined steadily from 3.3 percent in 2003 to 1,2 percent in 2004 and 1.7 percent in 2005.



Compared with an average annual inflation rate of 2.1 in the Euro zone, Dutch citizens ostensibly had no reason to keep insisting that the euro had contributed to inflation. Yet they did, raising the question to what extent their rejection of the Constitutional Treaty was influenced by their persisting mistrust over the euro conversion.

While the post-referendum poll of Eurobarometer does not list discontent over the price enhancing effects of the euro as a reason for rejecting the Constitutional Treaty (instead most interviewees mentioned 'lack of information' (32%), 'loss of national sovereignty' (19%) and resentment towards the political elite (14%) as their main reasons for rejecting the treaty) (Flash EB 172), it has to be taken into account that the questionnaire did not contain a clause on the euro and hence does not prove that the euro did not play a role in the rejection. Besides, Dutch poll data collected in the context of the Dutch National Election Study ('Nationaal Kiezersonderzoek') tell a different story. In fact, 73 percent of those who voted against the treaty strongly agreed with the statement that the euro conversion had had seriously harmed Dutch interests. Similarly, 64 percent of 'no'-voters agreed strongly with the statement that the introduction of the cash euro had resulted in price hikes. In other words, there appear to be strong correlations between the stance toward the euro and the actual voting behavior at the referendum (see Van der Kolk & Aarts 2005: 197ff.). Hence *NRC Handelsblad* seems justified in calling the Dutch referendum on the Constitutional Treaty a covert judgment on the wisdom of the introduction of the euro four years earlier, even though treaty and euro were technically unrelated (*NRC Handelsblad*, 19 May 2005).

3 HOW TO EXPLAIN THE RIDDLE OF BELATED CONTESTATION?

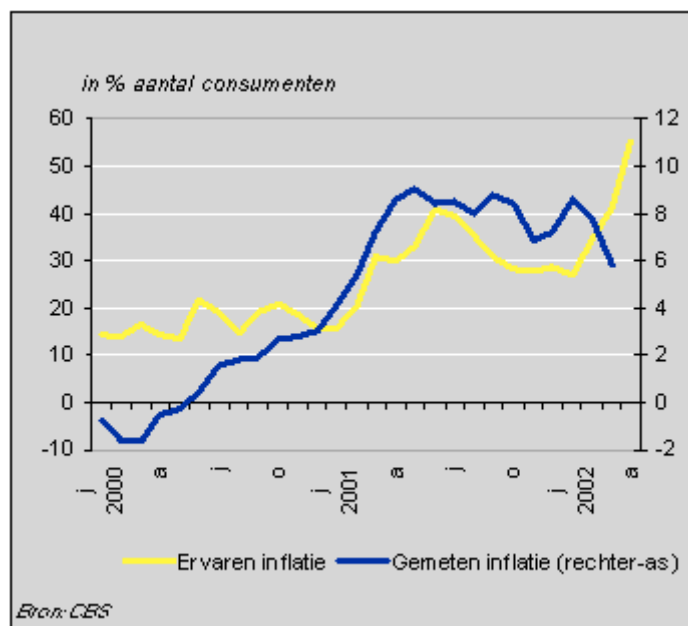
As the preceding reconstruction makes clear, the riddle of belated contestation consists in fact of a number of riddles, which are all, in their own way, related to the perceived price rises that the introduction of the cash euro presumably has caused. The first question that needs to be answered in this regard is:

Did the introduction of the cash euro contribute to consumer price inflation, and if so, to what extent?

When the increasing public discontent over perceived price rises after the euro conversion reached parliament in mid-2002, the government asked the Central Planning Bureau (CPB), its main economic advisor, to identify the contribution of the introduction of the cash euro to the persistently high inflation rates in the Netherlands. The focus was in particular on price rises in the hotel and restaurant trade, which received the most abuse from disgruntled consumers. The CPB concluded that price rises in this particular trade indeed surpassed the average inflation rate over the first eight months of 2002 of 3.6 percent with on average 3.6 percentage points. However, only part of that excessive inflation was euro-related. Much more important were attempts to repair overall profitability, which had taken huge hits in 2000 and 2001 because rising wages and increasing competition. Moreover, the excessive price rises in the hotel and restaurant trade contributed only 0.3 percent to the overall consumer price index. The high inflation in 2001 and 2002 had more to do, according to the CPB, with an unfortunate confluence of causes — VAT increases in 2001, starting to bite in 2002, which were part of the political compromise over the new tax system that was introduced in 2001; high vegetable and fruit-prices as a result of bad weather; high meat prices because of the FMD-epidemic in 2001; high energy prices; and especially increasing labor costs as a result of macro-economic overheating — than with the introduction of the euro as such (CPB 2002). In fact, to assess empirically the public claims of increased inflation because of the euro, the Dutch Central Bank (DNB) conducted a unique survey in mid-2002 and asked 6000 retailers, cafes and restaurants to quantify the costs of the introduction of the cash euro and how these had affected their prices. On the basis of this information, the DNB calculated that the contribution of the conversion to the cash euro to overall inflation could not have surpassed 0.6 percent and was probably between 0.2 and 0.4 percent (DNB 2002).

Nevertheless, Dutch consumers continued to experience a much higher inflation rate and kept accusing the euro for being the main culprit. The Central Bureau of Statistics which keeps track of both experienced inflation and real inflation, noted in mid-2002 that experienced inflation, which used to be at a lower level than real inflation, had in fact jumped

the real inflation line shortly after the introduction of the cash euro, while the real inflation rate had actually started to decline before the introduction of the euro.



This of course raises another, second, question, namely:

If the actual extra inflation caused by the introduction of the cash euro was in reality limited, why did Dutch voters overestimate its effects?

There are different factors that could have added to the Dutch 'inflation illusion'. There was first of all the unfortunate coincidence of a reversal in the Dutch business cycle and the introduction of the euro. While the Dutch outperformed most European economies between 1995 and 2000, 2001 saw a gradual reversal of economic fates. In fact, 2002 initiated a period of approximately four years during which the Dutch economy underperformed vis-à-vis its European neighbors. While the boom largely explains, as we saw above, the above average inflation figures, the following bust could well have contributed to the Dutch 'inflation illusion'. After the introduction of the euro, the average Dutch citizen actually lost spending power. However, this loss was not so much due to the introduction of the euro, but rather to a rapidly worsening economic performance.

Another possible contributing factor could have been public disappointment over the euro because of an initial failure to deliver on the promises that were made on its behalf by its proponents. In the second half of the 1990s a number of strong claims were made regarding the introduction of a single currency, which were used to 'sell' the euro to a largely disinterested public. It was claimed, first, that the euro would enhance Europe's monetary power vis-à-vis the US; second, that it would create a Europe-wide transparent market for

producer and consumer goods and would hence result in more competition and thus lower prices; and, third, that it would reduce the costs of border crossing transactions, both for households and firms.

In the first months of 2002, the *NRC Handelsblad* devoted quite a number of pages to the ups and downs of the euro versus the dollar. In fact, in the first year of its existence the euro lost 20 percent of its value against the dollar. Only in May 2003 had the euro rebounded so much that it had again reached its introduction rate. Since then, it has gained almost 30 percent against the dollar. However, reporting generally is asymmetrical in the amount of copy it spends on good or bad news, dedicating much more space on 'bad news' than on 'good news'. Hence, the impact of the 20 percent loss on public perceptions could well have been much larger than the subsequent 30 percent gain.

The reporting on the problems of some participating states, notably Italy, Greece, France and Germany, in keeping the macro-economic promises that under girded the monetary union, on the persistence of price differences between economies, on the fact that banks — despite promises to the contrary — still charged their customers for cross-border transactions, as well as on the economic gloom in the euro-countries after 2002 could well have fed into a widely shared 'feeling' of the general public that they had been fooled by the political elite into accepting a bargain that turned out to be a blank.

Finally, it could well be that the introduction of the euro was perceived by the general public as being part of a larger neoliberal agenda in which the project of European integration was reduced to 'negative integration' or 'market making' (Scharpf 1999) and was used by the Dutch political elite to enact a policy of welfare retrenchment without having to take responsibility for it. While clearly resonating with the 1997 attempt of a group of Dutch heterodox economists to politicize the economic underpinnings of the European Monetary Union, the reconstruction showed that the attempt failed because of widespread consensus about the beneficial nature of a monetarist economic stance for Dutch interests. The outstanding property of Dutch monetary policymaking is its fundamentally apolitical nature. Since 1983 the Dutch Central Bank had linked its monetary policy to that of the German *Bundesbank* (Szasz 2001: 239ff.). The fixed exchange rate of the guilder to the D-mark meant that Dutch monetary parameters were actually decided in Frankfurt. Moreover, the dollar-guilder value was determined by the dollar-D mark value, implying that the Dutch central bank only had to coordinate its market interventions closely with those of the *Bundesbank*. Because, in monetary terms, the Netherlands was a province of the German Federal Republic, the loss of sovereignty implied by European monetary integration was hardly of practical salience. The fact that it was lacking political salience indicates a rather pragmatic

stance of the Dutch public to monetary issues. Moreover, as a small and open economy that is largely dependent for its economic well-being on international trade (Katzenstein 1985), Dutch elites as well as the public at large were well aware of the importance of a hard currency, suggesting that the monetarist stance of both *Bundesbank* and Dutch Central Bank were perceived as being both macro-economically sound and politically and ideologically neutral. Hence, the fears Dutch elites and the people at large harbored over European monetary integration were the same as those of the Germans and the reverse of those cherished by the French and other 'soft' currency states and concerned the future 'softness' of the euro rather than the loss of monetary sovereignty.

The question is why this consensus broke down. While no hard empirical data on this issue exist, a plausible explanation would have to include the very different economic circumstances of the early 2000s. The importance of having access to relatively generous social security arrangements is of course much larger, and is hence more prominent in the perception of citizens, in the case of a recession. This could well explain why the small Socialist Party (SP) that played a disproportionately important role in the 2005 campaign against the Constitutional Treaty, succeeded in framing the Treaty as a neoliberal constitution that would erode the Dutch welfare state and why the group of heterodox economists failed in 1997, the high tide of the success story of the Dutch 'poldermodel'.

While Dutch poll data suggest that these issues did indeed play a role in the voting behavior of Dutch citizens in the 2005 referendum — 83 percent of those who did vote against the treaty expected that European integration would result in the erosion of the Dutch welfare state, while 71 percent of no-voters strongly rejected the claim that European integration would enhance their welfare (Van der Kolk & Aarts 2005: 192) — the disadvantage of these explanations is that they are ultimately based on the irrationality of the voter. The effectiveness of 'framing' by political entrepreneurs such as the SP is dependent on the inability of voters to distinguish between different issues. Although it might well be that the average voter is unable to keep the different issues distinct and to understand that there are in fact only weak causal links between these issues and the introduction of the cash euro, the presumption of rationality that is underlying most social theorizing requires the consideration of more fine-grained explanations.

The earlier reconstruction showed that such an explanation could well be related to the specifics of the introduction of the cash euro, and especially its conversion rate. The new field of 'behavioral finance' increasingly emphasizes the importance of taking into account the cognitive limits of the human mind in order to understand the behavior of economic agents. Under conditions of complexity or time pressure, human decision-making is triggered by

emotions and follows rules of thumb instead of careful weighing costs and benefits. As a result, decision-making generally doesn't result in optimal decisions but in 'satisficing' decisions (Prast 2004). In fact, a number of studies have used these insights to explain why the 'inflation illusion' caused by the cash euro is more prevalent in some countries than in others. When the conversion rate is both difficult and results in underestimations one would expect agents to experience stronger 'inflation illusion' than in cases where only one of these variables is present. While there were several countries in which the conversion rate was perceived to be difficult (Austria, France, Greece, Ireland, the Netherlands, Spain) or resulted in underestimations (Belgium, Greece, Luxembourg, the Netherlands, Spain), only in Greece and the Netherlands were the conversion rates both difficult and inflationary. Whereas difficult but overestimating rates do generate financial opaqueness but an opaqueness that does not matter much because they overestimate prices and hence lead to 'deflationary illusions', underestimating but simple rates allow consumers to quickly correct their estimations and hence to dispel 'inflation illusions'. In the case of both difficult and underestimating rates that is not possible. Hence, it is not surprising that both Greece and the Netherlands are the countries where the mismatch between real and perceived inflation is not only highest but also most persistent (Traut-Mattausch et al. 2004; Ehrmann 2006). This raises the question what Dutch policy makers could have done to dispel the 'inflation illusion', a question I return to below.

Finally, since the event of the introduction of the cash euro was not only technically unrelated to the Constitutional Treaty but was also separated from it in time, the question is:

How and why was the euro 'linked' to the treaty?

Part of the answer is of course related to the 'framing' mentioned above. Because of an unfortunate confluence of causes — economic decline, 'inflation illusion', disappointed expectations — there clearly was a window of opportunity for political entrepreneurs to frame the treaty as a formalization of the neoliberal project that was perceived to have brought economic decline, loss of purchasing power because of the introduction of the euro, and welfare state retrenchment. According to Eurobarometer data as late as 2005 Dutch interviewees were most negative about the euro. Only 38 percent held the opinion that the introduction of the euro had been advantageous, versus 51 percent for the euro-12 overall. However, after four years the 'inflation illusion' seemed to have worn of a little. The 93 percent of Dutch interviewees that thought the euro had caused inflation was exactly the Euro-12 average (Flash EB 175). This suggests that it is not self-evident that the euro would have played such a large role in the 2005-referendum and hence that Dutch voters could just as well have rejected the 'frame' adopted by the SP. In other words, a more direct linkage in

time was needed to reinvigorate the Dutch ‘collective memory’ of the inflation caused by the cash euro in order to explain the impact of the ‘inflation illusion’ on the 2005-referendum.

Fatefully, such a linkage was provided by a public row, just a month before the referendum, over the height of the rate against which the guilder was converted to the euro in 1998, following an interview of a high ranking Dutch Central Bank official, Henk Brouwer, with the Amsterdam based daily, *Het Parool*. In that interview, the official claimed that the guilder had been undervalued against the D-mark with 5 to 10 percent, suggesting that the euro conversion rate should not have been 2,20371 but rather in the vicinity of 2, a rate that would have been similar to the D-mark conversion rate and would largely have solved to ‘inflation illusion’ problem described above. The interview focused primarily on the effects of the undervaluation of the guilder against the D-mark, the currency of its largest trading partner, namely: above average growth in the late 1990s and above average price inflation in the early 2000s (*Het Parool*, 30 April 2005a). However, *Het Parool* turned this rather technical and nuanced account into the sensational story that the euro conversion rate of the guilder had been too low, suggesting that the introduction of the cash euro had robbed Dutch consumers of their money and that Dutch elites had willingly kept this from the Dutch public. An account of this nature was put large on the front-page under the caption: ‘Guilder too cheap into the Euro; Dutch Central Bank kept undervaluation of guilder secret’ (*Het Parool*, 30 April 2005b). This quickly turned into a media hype and within two days reached parliament. Gerrit Zalm, the Minister of Finance, was asked to respond to questions from several MP’s who claimed that the government should never have kept this secret. Although the Minister admitted that the guilder had been undervalued, he stressed that it had been largely beneficial, while the post-euro inflation was not so much caused by an undervalued guilder as by economic policy mistakes of the second ‘purple’ (liberal and social democratic) coalition, in which he himself had been Minister of Finance (!).

While being contested by economic experts (see CPB 2005), the sensational message that Dutch interests had been sold out by its representatives during the determination of the euro conversion rates in mid-1998, found a willing audience among Dutch voters trying to make up their minds about the Constitutional Treaty. For the SP, the most active and most determined party on the side of the opponents, the huge wave of publicity following the *faux-pas* of the DNB-official and the failed attempts by Dutch government officials at damage control, was a gift from heaven. What was still a small victory for the ruling coalition in April 2005, turned quickly into a large defeat in May.

It is obvious that the Brouwer-affaire could never have served as ‘tipping point’ if the populist shockwave following the rise and death of Pim Fortuyn would not have resulted in a backlash

against 'policy making by stealth'. In this climate, political capital was gained by candor and openness, even though the issues at stake might be better served by caution and a certain measure of secrecy. Moreover, the Dutch public clearly distrusted experts and their technical vocabularies. As a result, politicians — but opinion leaders, academics and policymakers as well — felt increasingly compelled to express themselves in quotidian ways, even though the topic required a more sophisticated treatment. This tendency was reinforced by increasing competition between and within media over the favors of the viewer and reader. Brouwer clearly was a victim of this and as such his role in the Dutch rejection of the Constitutional Treaty cannot be treated as a deliberate public intervention by a political entrepreneur with clear and well-defined political objectives, even though his *faux pas* was adroitly transformed into political capital by agents like Jan Marijnissen en Harry van Bommel of the SP, which during the campaign proved themselves as shrewd political entrepreneur.

4 COULD CONTESTATION HAVE BEEN AVOIDED?

If these are indeed the euro-related causes behind the Dutch rejection of the Constitutional Treaty, how much of it could have been avoided? If the contestation over the euro and its role in the rejection of the treaty is merely the result of an unfortunate mix of small, unrelated policy mistakes and other coincidences and contingencies, than there is not much that could have been done to prevent the rejection. Policy makers would have been largely exonerated too if it was caused by the ignorance or even stupidity of the median voter, who failed to see: (i) that the euro had nothing to do with the treaty; (ii) that the introduction of the euro was only marginally responsible for the 2002 inflation; (iii) that the simultaneity of the introduction of the euro and macro-economic decline was a mere coincidence; (iv) that the euro was not part and parcel of a neoliberal complot; (v) that European integration was not limited to market making (Heritier 1999; Hemerijck 2004; Zeitlin & Trubek 2003); and who (vi) refused to revise their opinions in the light of expert information and superior knowledge. While it is surely true that every politician begets the voter (s)he deserves, if the latter fails to listen to the best arguments around there is not much policy makers can do. Or to reiterate Gerrit Zalm's statement: 'if Dutch voters prefer to listen to Marco Borsato instead of informing themselves of the economic advantages of the euro, then there is not much that politicians can do'. If, however, the contestation was caused by the fact that the electorate no longer bought the 'framing' of distributive issues as merely technical, problem solving ones, policy makers can either be faulted for practicing policy making by stealth and hence for infringing upon democratic precepts, or for failing to see that changes in external conditions had actually turned what used to be pure problem solving into an issue with distributive consequences. The first fault would clearly be a moral one, whereas the second is merely a strategic one. In view of the foregoing it seems that a mixture of the former and the latter is applicable here. I start with the category of 'policy mistakes'.

4.1 Policy Mistakes

As the reconstruction demonstrated, there were a number of factors that added to the overall disgruntlement of the Dutch public over the introduction of the cash euro that clearly could have been avoided. A case in point is the Brouwer-affaire. Although disappointing from a social science perspective, it is clear that the affaire was a contingency that need not have taken place. As such it clearly fits into the category of unfortunate coincidences. However, it also points to a lack of coordination on the side of Dutch policymakers regarding the distribution of tasks and responsibilities in the campaign for the Treaty (see Lucardie 2005). That, in turn, indicates a certain laxness on the side of leading members of the coalition that could either be due to too much trust in the pro-European frame of mind of the Dutch electorate or to an underestimation of the adroitness of their political adversaries. Both

explanations have a certain plausibility, for, first, Dutch citizens used to be very pro-Europe while the rise of a more skeptical frame of mind was both relatively recent and gradual, and second, because opinion polls indicated that a majority, even if a small one, would vote in favor of the Treaty. Defeat came suddenly and accidentally, even though a more providential politician might have seen it coming.

A similar picture rises up from the observation that the temporary opaqueness caused by the introduction of the cash euro was abused by local authorities to increase the prices citizens had to pay for local services. While most of these price increases could be explained by upward round offs of the odd prices that resulted from converting guilder prices in euro prices, it remains the case that complaints from citizens about the fact that even public authorities made unjustified price increases added strongly to the general feeling of inflation brought about by the euro conversion. Here too there appeared to be a general lack of coordination within the organizations and institutes of the Dutch state that is indicative of a similar lack of concern of Dutch policy makers for the public legitimacy of their European policy making. This too could easily have been prevented.

The same is suggested by the failure to anticipate the ‘inflation illusion’ on the side of Dutch consumers, caused by the unfortunate combination of temporary price opaqueness as a result of a particularly hard multiplication and value underestimation as a result of a coincidental level of the euro-guilder conversion rate. These effects could have been anticipated and should have resulted in a more hands on approach by the EU. Instead, because of the limited size of the EU contribution to the overall costs of the conversion campaigns, content and organization were largely determined by state agents and hence followed national organization patterns and national focuses. In the Netherlands, as we have seen, that implied both the delegation of price controlling to a civil organization that, as it appeared, ultimately lacked to moral authority to do so effectively, and a strong emphasis on a speedy changeover rather than dispelling the ‘inflation illusion’. According to Dutch policy makers, speed rather than prudence was what mattered, especially in a context of slowly swelling public skepticism. Moreover, a speedy introduction and hence a rapid termination of the period of dual pricing was explicitly recommended by the EC (Flash EB 175 :24) .

In hindsight, this has proven to be a serious miscalculation. At the level of the EU, policy makers should have taken into account studies in behavioral finance and should have pushed member states to take adequate measures to lessen the length and deepness of the unavoidable period of price opaqueness. In practice, this should have resulted in a differentiated price regime in the realm of the Euro-12, in which the mode of price control would be determined by the extent of price opaqueness. In countries where the conversion rate

was simple and price opaqueness relatively low, the EU could have left the specifics of the introduction of the cash euro to the member states. Moreover, in those states there would have been no need for obligatory dual pricing since consumers would possess the calculative means to control pricing policies on their own account. However, in countries where the rate was both complex and resulted in a structural underestimation of euro prices, as was the case in the Netherlands and Greece, a more compelling pricing regime could have shortened the period of price opaqueness and could hence have diminished the ensuing ‘inflation illusion’. This does not automatically imply price controls in the strict sense, though that was the only alternative actually discussed (and dismissed) in the Netherlands. Rather, the Dutch government should have made dual pricing obligatory and should have taken the responsibility for checking against inflationary abuses of price opaqueness upon itself, rather than delegating it to an understaffed, under resourced voluntary association. In that way, the lingering resentment of the Dutch (and Greek) public against the euro and, by association, the Constitutional Treaty could have largely been avoided. Their failure to do so was a mistake that, once again, indicates a clear disregard for the actual public perceptions, which seems to be born both by the depoliticized nature of monetary policy making in the Netherlands and the long shadow of the age of permissiveness that used to characterize the opinion of the Dutch public regarding European integration.

4.2 Timing

All explanations that have to do with ‘timing’ clearly fall in the category of ‘contingencies’ (Pierson 2004). As the reconstruction given above demonstrates, ‘timing’ was of the utmost importance. It played a role in at least four ways. First, by feeding the slowly rising public distrust concerning the euro through the deteriorating exchange rate of the euro against the dollar. Since the declining value of the euro reflected the dismal expectations of international FX traders concerning the economic prospects of the Euro-12, this was but an unfortunate coincidence for which policy makers were hardly responsible and hence could hardly be faulted.

Second, ‘timing’ mattered in the sense that the prolonged recession in the euro-area — consisting of high inflation, slow economic growth and declining spending power — that started right after the introduction of the cash euro, became indelibly linked with the introduction of the euro in the perception of the general public, even though the two ‘events’ had nothing to do with one another. While one can contest the wisdom of pursuing deflationary macro-economic policies at the onset of a regional recession, as the Dutch government did in response to the huge losses suffered by Dutch pension funds on the worlds stock exchanges, it is too strong to blame policy makers for the lackluster economic performance between 2002 and 2005.

Third, 'timing' mattered in the sense that the particular moment chosen for the referendum on the Constitutional Treaty implied a historical context in which the chance of a backlash against the position of the government was larger than normally. While the lack of experiences with national referendums in the Netherlands clearly played a role in the incompetent handling of it by the coalition partners (see above), experiences in other member states show that generally national referendums on European issues fail in times of recession and succeed in times of economic growth. The changing mood of the electorate in the early 1990s in the two main protagonists of European integration, France and Germany, for instance, is largely explained by the mismatch between the economic expectations surrounding the Single European Market and the actual economic performance at that time. After nearly 15 years of lackluster economic growth, the budding economic and political bullishness of the late 1980s, which was both cause and effect of the new impetus to European integration, suddenly gave way in 1992 to a short but fierce recession. While largely outside the span of control of national politicians, its timing could not have been worse. Where voters had a chance, as they did in Denmark and France, they forcefully made it clear that the case for European integration was not as uncontested as the political elites hoped it was but was instead highly dependent on macro-economic performances.

Fourth, 'timing' mattered in the sense that the construction of an integrated European market as well as the enlargement of the EU had gradually diminished the position of the Netherlands within the EU. Up until, say, 1985, when there was still an impasse in the German-French relationship, the Dutch were able, by acting as an intermediating power broker, to wield undue influence over EU decision-making, especially in view of its small size. Because of that, parliamentary control over Dutch European standpoints hardly seemed to matter. Since there were large side payments anyway, especially in the form of agrarian subsidies, Dutch interests were actually furthered by European integration. As a result there were no incentives for opposition parties to politicize EU issues. This slowly changed from 1985 onward when France and Germany did succeed, because of reasons that fall outside the scope of this paper to discuss (but see Dyson & Featherstone 1999; Eichengreen 1997; Moravcsik 1998; Szasz 2001), in overcoming their decades long battle over the extent and nature of European integration, and hence did no longer have to 'bribe' Dutch representatives to back their respective positions. As a result, Dutch influence waned and the beneficial nature of European integration for Dutch interests became less self-evident. Hence, European issues started to attract more, if negative, political attention. The Dutch uproar over the failure to get Dutch officials nominated for high-profile European positions that came to a peak with the horse-trading over the nomination of Wim Duisenberg as president of the ECB, clearly must be seen in this light. But so must the shrill public

discussion over Dutch contributions to the EU, which strongly emphasized that the Dutch had become the biggest net contributors while skipping over the fact that before 1995 they had been one of Europe's largest net receivers. And so must the feelings of outrage and isolation that were experienced by the Dutch when the Germans started to backpedal upon their earlier commitments to the monetarist designs of European monetary integration, as they were embodied in the criteria of the Growth and Stability Pact.

While these are all matters of 'timing' and hence fall outside the category of blamable or praiseworthy actions, they do seem to contain lessons for political agents to prevent future backlashes. First, of course, that 'timing' matters and hence that political agents should be clear about the windows of opportunities different contexts, especially economic ones, provide for different interests. While, following Macchiavelli, good policy making is a matter of *virtu* as well *fortuna*, Macchiavelli strongly emphasized that the ability to take advantage of fortunate circumstances is part and parcel of being a virtuous politician (Macchiavelli 1988). In that regard, it is obvious that Jan Marijnissen and Harry van Bommel of the SP were better 'statesmen' than the members of the ruling coalition.

Second, that the output based legitimacy of European decision making can no longer be taken for granted, and now less than ever. Because of increasing complexity and interdependence it becomes ever harder to trace social outcomes to political outputs. As a result, political decisions can get blamed for results that have no causal link to the decisions in question. That seems clearly to have happened here, for Dutch voters blamed the decision to changeover to the euro for the bad economic weather that ensued upon its introduction, even though both events were technically unrelated. Because the linkages between the different scales of governance are becoming stronger, input based forms of legitimacy can be expected to become increasingly important. While in large polities they can never replace the representative mechanisms of output legitimacy, there will be an increasing need to enhance the parliamentary embeddedness of Dutch officials within EU institutions to ensure better political legitimacy for their outputs. Moreover, direct democratic instruments such as referendums will need to play a larger role in producing the required political legitimacy for further European integration and enlargement.

A similar requirement follows from the dwindling influence of the Netherlands within the EU as a result of both enlargement and the changed European power constellation. Whereas before 1985 the general public could trust Dutch negotiators to arrive at European settlements that served the interests of the Netherlands almost automatically, since that time that is no longer the case. The ensuing politicization of European issues during the 1990s, of the introduction of the cash euro and of the Constitutional Treaty in 2005 clearly indicate a

mismatch between public expectations and actual deliveries. Apparently, Dutch politicians have failed to instill within their constituents a new sense of realism about what they can accomplish within the changed European arena. Seen from a Dutch perspective, European integration is no longer a positive sum game as it was in the 1950s, 1960's, 1970s and even 1980s, but has become a zero sum game with real distributive consequences. While it is surely too strong to claim that that has been true for the introduction of the cash euro in and of itself, since in the eyes of the Dutch public the euro has become an icon of the process of European integration as such, in an indirect fashion it obviously is. As is demonstrated by the success of the SP to 'frame' the euro as a monetarist and hence neoliberal complot against Dutch citizens, because of linkages between different policy domains no domain is any longer immune of politicization. In other words, policy makers can no longer expect that their 'framing' of a particular policy issue as being a matter of pure technical problem solving will go uncontested for long. As a result, the legitimacy requirements within the Netherlands of European policy making across the board has increased enormously. European integration can no longer be presented as a functional process, but has to be defended as an explicit political program. How, by whom, and for what ends, are questions that fall outside the scope of this paper.

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