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The Euro: A Concise Introduction to European Monetary Integration

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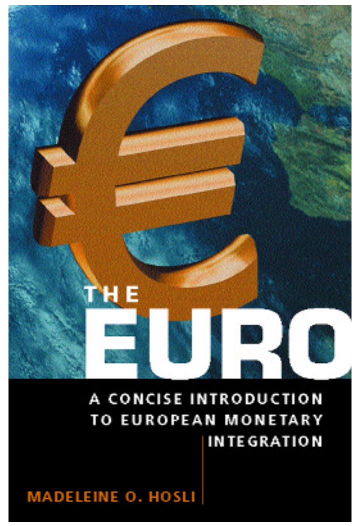

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Introduction

On January 1, 1999, the euro was created. Eleven European Union (EU) member states located in Western Europe (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain) entered the European Economic and Monetary Union (EMU). In January 2001, Greece was admitted into the euro area. Former domestic currencies, such as the German mark, the French franc, and the Italian lira, were taken out of circulation in mid-2002.

Why was EMU established, and why was the euro created? This book contends that both economic and political forces drove the incremental process leading to full European monetary unification. Developments both within and outside Europe created pressures, and increased demands, for the gradual establishment of a unified monetary policy and a single currency in Europe. Among the political factors was a perception shared by a range of leading political actors, including government officials and high-level representatives of European institutions (notably the European Commission), that monetary union and the euro would bolster economic gains and deepen the general process of European integration. Core decisionmakers believed economic advantages could be achieved by monetary union and by establishing shields to protect European states from international currency volatility. These perceptions contributed to initiatives launched by major EU state governments, including Germany and France, to establish sound schemes for European monetary cooperation. Predominantly political motives also encouraged efforts to establish patterns of political and economic interdependence that would embed all EU states, including reunified Germany, in a highly institutionalized European framework of monetary and economic governance.

The economic reasons for integration include the aim of economic and political actors to achieve price stability, avoid currency volatility in Europe, and realize a range of transaction cost savings. In addition, increased international economic and financial interdependence, and global trade and capital flows, increasingly created a need for further economic integration. Pressures originating from the general process of economic globalization strengthened incentives for actors within Europe, including major business organizations and interest groups, to deepen monetary cooperation in Europe, with the general aim of increasing Europe's competitiveness in global markets. In this sense, EMU, developed and implemented in a top-down approach, was to constitute the crowning event of a process of gradual economic integration that had led, beginning with early European integration in the late 1950s, to the establishment of Europe's internal market in the beginning of the 1990s.

Generally, the share of EU states in global economic and trade relations appeared to somewhat contradict Europe's low weight in global political affairs. EMU was seen, in the long term, as a tool that might contribute to gradual political integration in Europe by feeding back into the perceptions and identities of a variety of European actors, gradually contributing, in the medium-term future, to the creation of full-fledged political union in Europe.

Hence, the establishment of EMU and its single currency, the euro, can be seen as the result of the interplay of political and economic forces. EMU has been conditioned by developments both endogenous and exogenous to Europe, making EMU and its single currency a fascinating topic to study, especially from an international political economy perspective.

The steps on the road to the creation of full monetary union in Europe have involved establishing regional exchange-rate regimes and a range of steadily deepening institutional structures for European monetary cooperation. These very arrangements, in turn, have influenced perceptions about the feasibility and desirability of EMU. Rationales and motivations of a predominantly economic nature were underlying this steady, although sometimes partially interrupted, process toward full European monetary union. But it clearly took political momentum to realize the implementation of concrete steps, and the institutionalization, of monetary union.

EMU and the euro are now a reality.[1] In spite of the euro's record so far, it is impossible to predict with certainty what the role of this still rather new common currency will be in future global financial and monetary affairs.[2] The European Central Bank (ECB), created in 1998, is still largely in the process of establishing its role and reputation both within Europe and in the global political and monetary context. But its achievements so far, as seen in price stability in Europe and the apparent confidence of global actors in the potential stability of Europe's new currency, are convincing.

EMU is an impressive new enterprise: several advanced industrialized democracies have more or less voluntarily abandoned sovereign policy rights in the domain of monetary politics with the primary aim of achieving collective gains. Current EMU member states will soon be joined by several Central and Eastern Europe states in particular, some of them with fairly promising outlooks regarding economic growth and fiscal balances (as Chapter 5 of this book illustrates). Figure 1.1 shows a map of current EU states participating in the euro area.

Some states in the euro area (notably Germany) were already known for their stable and strong currencies, whereas others were faced with rather frequent decreases in the external value of their domestic units of account. Current members of the euro area have been part of various schemes of European regional monetary cooperation, notably the European Monetary System (EMS) that existed from 1979 until the start of EMU in 1999. The new EU states take part in a follow-up regional monetary scheme, the EMS II.

All EMU member states are part of the EU, with its unique institutional structure, its internal market (a market without internal frontiers), and a membership that seems to be continuously expanding. Not all EU states, however, are members of EMU. Table 1.1 shows which EU states are currently in the euro area, and Table 1.2 provides an overview of EC and EU enlargements in the past. Clearly, many more current EU states will join Europe's monetary union in the future.

As of mid-2005, twelve EU states are members of EMU and thirteen are still nonmembers. Most of the new EU states that joined in 2004, however, can be expected to join the EMU project in the relatively near future. The creation of EMU and the establishment of the euro have certainly affected international economic and financial affairs. Conversely, international monetary relations, patterns of globalization, regionalism, and international competitive pressures may have significantly influenced monetary integration in Europe. In view of these trends, the main aim of this book is to explain what the euro is, how it has come about, and what potential international role it may play in the future. Thus, the main focus of the book is on providing an overview of the history and the possible future of the euro, while illustrating links between political

Figure 1.1 Map of the Euro Area

Table 1.1 A List of EU and EMU Member States (2005)

EU member states
Austria*
Belgium*
Cyprus
Czech Republic
Denmark
Estonia
Finland*
France*
Germany*
Greece*
Hungary
Ireland*
Italy*
Latvia
Lithuania
Luxembourg*
Malta
Netherlands*
Poland
Portugal*
Slovak Republic
Slovenia
Spain*
Sweden
United Kingdom

Note: * indicates member of EMU.

and economic forces contributing to the establishment of EMU and its new single currency.

After rather pronounced skepticism, mainly in Europe and in the United States, about whether the euro might ever come into existence, the emphasis in current discussions about EMU appears to have shifted to other topics.[3] It is now simply a fact that the creation of EMU was a realistic endeavor because monetary union has been established. This does not imply, however, that the creation of EMU was considered to be a prudent step by everyone. In fact, some academics saw its establishment as inadequate and premature. However, debate over EMU has now shifted, for the most part, to the question of what the effects of monetary union and the introduction of the euro might be on economic and monetary performance in Europe and in other parts of the world. Will the euro be stable? Will EMU be able to survive potential adverse economic

Table 1.2 Enlargements of the EC and the EU

Member states	EC-6 1958–72	EC-9 1973–80	EC-10 1981–85	EC-12 1986–94	EU-15 1995–2004	EU-25 Since 2004
Austria	–	–	–	–	x	x
Belgium	x	x	x	x	x	x
Bulgaria	–	–	–	–	–	–
Cyprus	–	–	–	–	–	x
Czech Republic	–	–	–	–	–	x
Denmark	–	x	x	x	x	x
Estonia	–	–	–	–	–	x
Finland	–	–	–	–	x	x
France	x	x	x	x	x	x
Germany	x	x	x	x	x	x
Greece	–	–	x	x	x	x
Hungary	–	–	–	–	–	x
Ireland	–	x	x	x	x	x
Italy	x	x	x	x	x	x
Latvia	–	–	–	–	–	x
Lithuania	–	–	–	–	–	x
Luxembourg	x	x	x	x	x	x
Malta	–	–	–	–	–	x
Netherlands	x	x	x	x	x	x
Poland	–	–	–	–	–	x
Portugal	–	–	–	x	x	x
Romania	–	–	–	–	–	–
Slovak Republic	–	–	–	–	–	x
Slovenia	–	–	–	–	–	x
Spain	–	–	–	x	x	x
Sweden	–	–	–	–	x	x
United Kingdom	–	x	x	x	x	x

circumstances (or economic shocks) without too much economic or political upheaval within Europe? Will EMU be beneficial for the EU and for Europe? How about the benign or adverse effects it generates for global actors and on international monetary affairs? Will the euro ever rival the US dollar? These are some of the prominent questions central to discussions about the current and possible future role and significance of the euro.

This book contends that EMU still faces some major challenges, including tensions between the ECB's clear-cut price-stability mandate and preferences of various political actors for a more growth-oriented ECB policy. In addition, when EMU is compared to several federal political systems, the responsibilities for macroeconomic and monetary policy making within EMU appear to be lopsided, with macroeconomic policy making still resting mainly in the hands of national EU governments, in spite of increased attempts at EU-wide coordination and full unification of monetary policy. This asymmetry in policy competencies is partially explained by the fact that not all current EU states belong to EMU. Still, it appears to conflict somewhat with the potential for economic and monetary governance across Europe. Because the EU's responsibilities in the areas of macroeconomic and fiscal policy are restricted, there is a certain tension between macroeconomic and fiscal policies, which are only partially coordinated, and a unified monetary policy for all EMU states. Rapidly growing EMU membership in the future may further aggravate some of the pressures stemming from this imbalance. However, in spite of these tensions, the institutional foundations of EMU are stable, as are those of the EU, and seem so far to be capable of absorbing various economic or political pressures. Hence, the scenario of an actual breakdown of EMU is unlikely. Tensions will certainly persist, however, and possibly affect ECB policymaking in the future. The clear focus of the ECB on price-level stability and its general performance in the years since its creation, however, indicate that monetary union in Europe, in spite of the partially political rationales that have led to its creation, is a sound endeavor. Hence, it is indeed likely that the euro will gradually assume a more important role in global economic and financial affairs.

If the ECB is able to maintain the orientation of its general policies in the future, the euro may, due to increasing international use, become a competitor of currently existing global currencies. It would only become a true rival of other currencies, notably the US dollar, however, if the ECB's policies were to be determined by political demands. Institutional provisions shielding the ECB from various forms of day-to-day political interference, despite voices pleading for it to assume a more proactive macroeconomic policy stance, prevent Europe's new central bank, for example, from implementing an active exchange-rate policy. The ECB is unlikely to ever turn into a politically driven entity. But it is likely to enhance its significance as the monetary locus for Europe and neighboring states, and to increase its role in global economic and monetary affairs.

In order to describe in more detail the euro's origins, current state, and prospects, and to illustrate some links between political and economic forces in the creation of EMU, this book addresses several topics in sequence. It begins with a chapter on the history of European monetary integration to set the stage to the rest of the book. Subsequent chapters illustrate the transition from the EMS to EMU, give an overview of the institutional structure of EMU, discuss aspects of fiscal and monetary performance in Europe, and describe current and possible future effects of the euro. Each chapter addresses specific aspects within this general context.

Chapter 2 illustrates how the Bretton Woods system, set up in the aftermath of World War II, aimed at stabilizing international monetary and financial relations and preventing a repetition of the competitive currency devaluations that occurred during the interwar period. A main goal of the new Bretton Woods institutions—notably the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD)—was to avoid the outbreak of another deep global economic depression. In practice, in the framework of the Bretton Woods system, the US dollar had gradually developed into the anchor currency of international monetary relations. The currencies of western European states were embedded in this international system of fixed, but adjustable, exchange rates.

The breakdown of the Bretton Woods system in August 1971, however, led Western European states to consider a regional monetary system that could shield their economies against adverse effects of international currency volatility. The currency "Snake" was set up in an attempt to create a common float vis-à-vis the US dollar. Plans for the establishment of an actual monetary union in Western Europe by 1980, however, proved to be premature. The 1970s were difficult years in terms of international economic and monetary conditions: the two oil-price shocks and subsequent economic recession led to increased speculative pressures on currencies of European Community (EC) states, including the French franc. Due to economic and monetary pressures on many participating states, the Snake gradually turned into an extended German-mark zone. Toward the end of the 1970s, a new, somewhat more modest plan for a regional monetary system materialized. It was supported by prominent political actors such as Helmut Schmidt, then chancellor of Germany; the president of France, Valéry Giscard d'Estaing; and Roy Jenkins, then president of the European Commission.

Economic exigencies of the time, in addition to currency volatility in international markets, led to intensified demands for European monetary unification. In 1979, the EMS was established as a comparatively far-reaching regime of European monetary cooperation that kept the fluctuation margins among European currencies within narrow bands, although not tied to international currencies such as the US dollar. The EMS did not establish the institutional foundations, such as a supranational central bank, for a monetary union. Instead it built a structure for monetary cooperation in which central banks would be obliged to maintain the predetermined margins within which their domestic currencies were allowed to move. This system was quite effective for most of the 1980s and 1990s, although it experienced some significant currency turmoil (notably in 1992 and 1993). Some analysts view the harmonization and common decrease of inflation rates (the rate of annual price-level increases), as well as long-term interest rates, as primarily due to the very existence of the EMS,[4] whereas others explain the harmonization as a result of the convergence of monetary policy ideas among political and economic elites.[5] An especially impressive common lowering of interest rates among EMS states in the second half of the 1980s reinforced optimistic expectations during the negotiations on the Treaty on European Union (TEU) that monetary union, based on predefined convergence criteria, would indeed be an economically and politically feasible option for Europe.

Chapter 2 also presents the structure and modes of operation of the EMS in more detail, since the EMS can be viewed as the actual precursor to the current EMU. The system consisted of two major elements: the Exchange Rate Mechanism (ERM) and the European Currency Unit (ECU). The ECU had been designed to develop into a new unit of account for the EC member states, but it never played this role in reality. The chapter also explains how the ECU constituted a basket currency and describes its composition in terms of the participating domestic currencies. A bilateral parity grid was set up, indicating the limits that central banks could tolerate within the ERM regarding exchange-rate variability among domestic currencies. The official exchange rates between the domestic currencies and the ECU—the central rates within the EMS—were determined on the basis of intergovernmental agreement in the Council of Ministers of Economics and Finance (Ecofin Council). Day-to-day exchange rates, however, were determined by market forces. Central banks in each of the participating member states were obliged to intervene in the financial markets to defend the parity of these rates. Official reserves were not actually pooled, but a system was in effect to facilitate both short- and long-term lending among the central banks of EMS member states.

The first years of the EMS were marked by relatively frequent realignments, that is, changes in official (central) exchange rates between the ECU and selected national currencies.[6] The German mark and the Dutch guilder, especially, were strong currencies in the system and appreciated in value as compared to other currencies (such as the Italian lira and French franc). The chapter describes the role of the German Bundesbank in the system, its independence from politics, and the credibility of its anti-inflationary monetary policy. By the end of the 1980s, the frequency of realignments within the EMS decreased significantly, a sign of the stability and success of this regional monetary cooperation scheme. Moreover, both a lowering and a convergence of inflation rates were observed for several EC member states. The EMS was shaken, however, by significant currency turbulence in 1992 and 1993.

Chapter 3 describes the transition from the EMS and the developments leading to the actual creation of EMU. In the framework of the 1986 Single European Act (SEA), EC member states had already achieved the conditions necessary for the completion of an internal market. Two basic elements of this plan were the new principle of mutual recognition of regulations (national product regulations, for example) instead of harmonization and the liberalized flow of persons, goods, services, and capital across the borders of EC states. By July 1990, the first stage of EMU—still within the internal market program—became effective. It mainly encompassed the abolition of remaining capital controls among EC member states, controls that were decisive earlier, for example, for European countries seeking to avoid extensive capital outflows or inflows that might lead to an undesired effect on the value of their domestic currency. Intensive discussions, partially based on different theoretical explanations regarding the role of economic and monetary policies in processes of regional integration, accompanied the move toward the creation of the internal market. Is a common market desirable and sustainable without monetary union? Could more benefits be achieved by adopting a common currency among EC states, mainly due to price transparency and a reduction of transaction costs? Should a European monetary union be envisioned, or would it be preferable to let the EC integration project stop at the establishment of a common market? Disagreement on such issues existed in public opinion, among academics and monetary experts, and among government representatives alike. For example, the British government under Margaret Thatcher opposed the creation of EMU altogether, at least before the actual intergovernmental negotiations on EMU began. But domestically, not least within her own Conservative party, significant internal opposition to her policy stance on European integration issues contributed to pressures to transfer leadership of the Conservative party from herself to John Major.

By comparison, the governments of Germany and France clearly supported the plan to establish EMU, although they held different preferences and put different emphases on particular aspects of the project.[7] EMU was perceived by a majority of EC governments as a scheme that would increase price transparency within Europe, help curtail transaction costs (for example, the costs associated with exchanging national currencies), and contribute to the achievement of economies of scale (essentially gains resulting from a bigger market and production on a larger scale). The provisions on EMU contained in the TEU foresaw a certain harmonization of macroeconomic and monetary performance of EC member states before EMU would start.[8] Accordingly, the Maastricht Treaty (the TEU) defined five convergence criteria with the aim of achieving more convergence regarding inflation rates, (long-term) interest rates, government deficits, government debt, and exchange-rate variability. The actual plan for monetary union as contained in the TEU foresaw a move toward EMU in three stages.[9] A major element of the second stage would be the introduction of the European Monetary Institute (EMI) in Frankfurt, Germany. The EMI would be a predecessor of the ECB and an institution to monitor the convergence of macroeconomic and monetary policies of EC member states. Chapter 3 also describes the launch of EMU on January 1, 1999, and shows the patterns according to which exchange rates between the euro and its national currencies became irrevocably fixed.

The institutional structure of the European System of Central Banks (ESCB) and of the ECB is discussed in Chapter 4. The chapter provides an overview of the ESCB and the composition and responsibilities of the ECB's governing council, executive board, and general council. In addition, it discusses some of the challenges for these institutions stemming from enlargement and related processes.

The ESCB is composed of the ECB and the central banks of all EU member states. By comparison, the Eurosystem comprises the ECB and the central banks of EU states participating in EMU. Since membership in the EU and EMU is not congruent (see Table 1.1), EU states not participating in the Eurosystem are ESCB members with a special status. With EU expansion to twenty-five members in May 2004, the number of central banks in the ESCB (but not yet in the Eurosystem) has considerably increased.

Europe's new central bank, the ECB, is governed by a governing council and an executive board. The ECB executive board comprises a president and vice-president and four other monetary policy experts. The first ECB president was Willem Duisenberg, formerly head of the Dutch central bank. Jean-Claude Trichet, former head of the central bank of France, became the second president. Members of the ECB executive board are assumed to defend a "euro-area perspective" within EMU and to avoid bias regarding the economic or monetary exigencies of their own states. Among the major responsibilities of the executive board are the implementation of EMU monetary policies according to the overall guidelines set by the ECB governing council, the determination of EMU-wide interest rates, and the formulation of respective instructions to the national central banks within the ESCB.

The ECB governing council is composed of the six members of the ECB's executive board and the heads of the central banks of all Eurosystem states (that is, of central banks of EU states participating in EMU). Among the main tasks of the governing council are the formulation of monetary policy for the euro area, including decisions on key interest rates; promotion of a smooth operation of payments systems; and the holding and managing of official reserves of the Eurosystem states.

The new EU states as of May 2004 are full members of the ECB's general council. Once they become members of EMU, however, the ECB governing council will adapt its modes of voting and decision-making. The different possibilities for institutional reform and the option finally to be implemented in view of enlargement are also discussed in Chapter 4. The ECB has a clear statutory mandate to maintain price stability in the euro area. However, the chapter briefly addresses the relationship between the ECB and the Ecofin Council, as is defined to some extent in the provisions of the TEU, regarding potential political influence on exchange-rate policy in the euro area. Regarding possible participation of EMU states in exchange-rate schemes, the chapter distinguishes between the potential leverage of political forces regarding formal and more informal forms of multilateral exchange-rate agreements. The chapter describes the nature of the "ERM II," seen for the most part as a tool to prepare new EU states for later EMU membership by establishing fluctuation margins for domestic currencies around the euro. Finally, the chapter explains why some EU states—Denmark, Sweden, and the United Kingdom—are not currently members of EMU and illustrates dilemmas in this regard in domestic politics, for example in the United Kingdom. It also shows prospects for new EU states to join EMU. Chapter 4 focuses on the relationship of some non-EU states, notably Switzerland and Norway, with EMU and the euro.

Chapter 5 addresses an issue at the heart of many discussions on EMU: the fiscal implications of monetary integration and repercussions on EMU states' macroeconomic performance. Of the five convergence criteria embedded in the TEU, EU states found it especially difficult to comply with the fiscal criteria regarding government deficits and debts, in part because most of them faced economic recession in the beginning of the 1990s. In order to ensure that member states would aim to conduct responsible fiscal policies, also after EMU would have started, the Stability and Growth Pact (SGP) was introduced in June 1997. However, the SGP was often criticized; while it provided clear political guidelines regarding fiscal performance, it was not entirely convincing in economic terms. The SGP foresaw sanctioning mechanisms for member states exceeding the criteria, notably regarding ratios of budget deficits and government debt to GDP. After the start of EMU, several EU states had difficulty complying with the fiscal criteria.

It is difficult to satisfy the provisions of the SGP, especially in times of economic downturn. When an economy shrinks, it is important to provide stimulation, not least by means of governmental investment measures. However, the SGP constrains public expenditures. Allowing EMU members to run large budget deficits risked creating collective action problems within the euro area; budget deficits may induce inflationary pressures and possibly lead to an increase in interest rates for the euro area. The SGP was established to provide a surveillance mechanism that would, through the European Commission, monitor and, if necessary, sanction government behavior. Generally, incumbent governments tend to increase public spending before elections in order to increase chances for electoral success. Clearly, the SGP, and EMU more generally, constrain this option. Within EMU, decisions on monetary policy are now delegated to the ECB, and governments have little leeway regarding domestic monetary, and to some extent macroeconomic, policies.[10] Tools to steer the domestic economy have therefore shifted from monetary to fiscal policy instruments. EU governments are generally reluctant to pool sovereignty in the domain of fiscal policy, however, possibly due to the very inability to directly influence monetary policies affecting their domestic economies. As a result, a gap exists within EMU between the pooling of sovereignty in the realm of monetary policy within the ECB and the fact that competencies in the fiscal domain rest mostly with individual EU member states. In essence, the SGP aimed to provide a tool to control government behavior within EMU in order to increase prospects for long-term EMU stability, but its provisions were difficult to meet.

With several EU states having difficulty complying with the criteria of the SGP, the pact faced increased criticism. Ireland and Portugal, for example, received warnings from the European Commission regarding their fiscal performance. They then introduced measures to comply with the SGP's provisions. By comparison, the government of France, having received similar warnings, signaled unwillingness to adapt its domestic fiscal policy. With Germany also unable to comply with the SGP criteria, notably the one on the budget-deficit ceiling of 3 percent of GDP, the pact came into troubled waters. Moreover, it was criticized by academics for being inflexible and implying a risk of generating economically counterproductive effects.[11]

Chapter 6 focuses on prospects for the euro's future: What could the possible repercussions of the euro be on the international monetary system? What might be the effects of EU and EMU enlargement by several new members? Is the euro a rival to other world currencies, notably the US dollar? Accordingly, Chapter 6 discusses prospects for the euro in global financial and monetary affairs. It analyzes the ECB's emphasis on price stability and patterns of macroeconomic and monetary convergence within EMU. It discusses ECB policies and factors affecting the credibility of a currency in international financial affairs. Finally, it addresses the possible role of the euro in international monetary affairs, as a unit of account, a means of payment, or a store of value. On the basis of this analysis, the chapter contends that, mainly due to the ECB's emphasis on price stability, the euro may indeed be used increasingly in global transactions, for example, to denominate trade and as a store of value (in both private and official use). The EU's weight in the global economy and in global trade relations combined with political stability, seem to strengthen the role of EMU's new currency. In addition, the ECB's independence from politics may be conducive to long-term economic-growth perspectives in the euro area. However, voices within the EU and EMU express the desire that the ECB, in spite of its strict price-stability mandate, put more emphasis on a growth-oriented monetary policy. It is unclear at this time whether these voices will gain strength in the future, but such a shift in emphasis would clearly run counter to the ECB's policy of price stability.

As this book illustrates, there have been several attempts in Europe, even before the start of EMU, not only to integrate markets, but also to establish a monetary union. These attempts have often been hampered, however, by member states' reluctance to give up monetary sovereignty, on the one hand, and by international developments constraining the capacity of European governments to integrate in the monetary realm on the other hand. Processes of globalization may have increased pressures to integrate monetary policy making in Europe, but often these very pressures, along with adverse international economic and monetary conditions, rendered the path toward European monetary union difficult in practice.

There has been significant skepticism, in public opinion as well as among economists and monetary experts, as to whether monetary union is feasible and sustainable in Europe. This skepticism was shared by prominent academics, several of whom viewed the project as simply premature. From an economic perspective, the main criticism raised is that the EU does not (yet) constitute an Optimum Currency Area (OCA) in that it does not have a degree of labor mobility and wage flexibility that would allow a relatively low-risk transition to monetary union. However, the establishment of EMU on January 1, 1999, has illustrated that monetary union in the EU was certainly feasible in a technical sense, even if it constituted a largely politically driven project. In fact, the introduction of the euro during the course of 2002 amounted to what might be judged to be a technical and logistical masterpiece.

Almost all EU states joined EMU at the beginning, and many more states are to join the project in the future. There still are critical voices questioning whether the introduction of EMU, and of the euro, constituted a good idea after all. As several observers have stated, EMU is not a natural development, occurring purely on the basis of economic logic, but a deliberate (political) effort of EU governments to push forward and strengthen the EU integration process.[12] This book contends that EMU may indeed largely be a political enterprise, but the ECB has shown an impressive degree of adherence to its price-stability mandate. It remains refreshingly independent of political forces and undoubtedly constitutes an increasingly strong and visible actor in today's global financial and monetary relations.

Notes

1. Discussions on the feasibility and probability of the creation of EMU are now closed, which may still leave academics to reflect about the feasibility, sustainability, and consequences of the project. On this, see Jones (2002).

2. This topic is discussed, for example, in Henning (1996), Portes and Rey (1998), Collignon and Mundschenk (1999), and Henning and Padoan (2000).

3. See Jones (2002).

4. See Walsh (2000).

5. See McNamara (1998).

6. See Tsoukalis (1999).

7. See Hosli (2000).

8. Data on policy preferences of various EC governments on EMU, along with those of representatives of EC institutions, are given in Kugler and Williams (1994). For preferences of EU governments and adaptations during the negotiation process, see Moravcsik (1998) or Dyson and Featherstone (1999).

9. For a detailed overview of the various provisions foreseen in the TEU in order to complete monetary union, see Flowers and Lees (2002) or Neal and Barbezat (1998).

10. In fact, the delegation of monetary policy authority to an independent central bank may reduce tensions within governments, since potentially conflictive debates on monetary policy are taken out of the context of domestic politics. See Bernhard and Leblang (2002).

11. For a discussion of the rigidity of the SGP's fiscal criteria and suggestions for improvement, see Begg (2002) or De Grauwe (2003). On the SGP's provisions, and criticisms raised against the pact more generally, see Leblond (2003) or Heipertz and Verdun (2004).

12. See Moravcsik (1998) or Tsoukalis (1999).