

## **POLITICAL AND ECONOMIC CONSEQUENCES OF ECONOMIC AND MONETARY UNION: TAKING STOCK OF THE FIRST EIGHT YEARS**

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With the creation of Economic and Monetary Union (EMU) in the European Union (EU), now eight years ago, we can all start to look back and reflect on the time that has passed and the challenges and opportunities that lie ahead. Created on 1 January 1999 with banknotes and coins introduced into the marketplace on 1 January 2002 EMU has by many been heralded as an unprecedented success of economic and monetary integration.

Many have focused on the sheer size of the project: twelve European Union member states introduced banknotes and coins in 2002 as legal tender replacing their previous national currencies, many of which had been around for centuries. As of 1 January 2007 Slovenia is the newest country to join. Another remarkable feat was the fact that a new European Central Bank (ECB) was created to formulate a single monetary policy for the eurozone. At the same time EMU leaves responsibility for budgetary and fiscal policies to national governments who still decide the level of expenditure and of taxes for its own subjects. Reflecting on these shared roles one can easily see that EMU did not introduce a fully-fledged federal regime in the area of economic and monetary integration. Rather it centralized only monetary policy leaving much of the responsibility over economic policy lie with member states.

Furthermore, EMU sits within a broader framework of European integration that itself is continuously in flux. The European Union experienced many transformations throughout the 1990s and the first years of 2000s. After numerous consecutive treaty changes (in Maastricht 1992, Amsterdam 1997 and Nice 2001),

it sought to have its legal basis integrated and specified in a single document 'A Treaty Establishing a Constitution for Europe'. The document was adopted by Heads of State or Government in June 2004 but failed to obtain the necessary support in national referenda in two member states, in spring 2005, leaving the ratification process in limbo. Despite the constitutional struggles, the EU's developments are continuous and keep progressing in various aspects related to economic and monetary integration, such as in the general area of services integration but also more specifically cooperation in the area of taxation and financial services.

The creation of EMU has had many thinking about some of its more specific implications. This special issue brings together authors who discuss some of those political and economic consequences that are now percolating down since EMU was created. We can broadly group the issues raised and discussed in this special issue under three headings: (1) the impact of EMU on selected cases and policies; (2) implications of EMU for governance; and (3) implications of EMU for fiscal policy. Under the first heading we find the paper by Marzinotto who examines the effect of EMU on Germany – the country that had been the leader in the pre-EMU era. She argues that Germany is performing worse than expected in EMU. A second paper in this category is the one by Bolukbasi that looks at how EMU affects Europe's social model of society especially in light of the rejection of the Constitutional Treaty in the two referenda. The next heading 'governance' contains three papers. The first one, by Schure and Verdun, offers a more general governance framework inspired by the case of the Stability and Growth Pact. It provides an analysis of the behaviour of small and large member states in the Council, and what can be learnt from that analysis for understanding strategic behaviour of the EU member states more generally in the process of adopting legislative acts. The paper by Fritz examines the governance structure of the ECB and questions related to efficiency and appropriateness of monetary policy decisions once ECB reforms enter into force, that is, after EMU enlargement. The final governance paper, by McKeen-Edwards and Roberge, discusses the legitimacy issues related to developments in the area of financial services. The final part of this special issue focuses on the fiscal dimension. The first of the papers on this theme is by De Bonis and Della Posta, who offer a formal model of the relationship between fiscal and monetary authorities and the role of both in coordinating budgetary, fiscal and monetary policies. They provide an analysis that explains the rationale behind fiscal rules for both small and large member states. The next paper by Van Nispen offers an examination of variance among the various national budgetary deficits, including an assessment of the role of culture. Finally, O'Brien looks at the potential impact of direct taxation

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jurisprudence of the European Court of Justice on member state budgetary discipline.

These contributions offer interesting insights into these very timely matters. First versions of each of these papers (and, in fact many others<sup>1</sup>) were presented at a conference at the University of Victoria on 18-19 August 2005.<sup>2</sup> The papers selected for this special issue were subsequently revised and each of them sent off to two referees in a double-blind refereeing process. A number of them also were sent another time to a reviewer. This special issue was finalized in mid October 2006.

I hope that the special issue that lies before you will enlighten you and will trigger further debates on the consequences of EMU – debates which I believe will remain very salient for many years to come.

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<sup>1</sup> Some of the other papers have meanwhile been published in Francisco Torres, Amy Verdun and Hubert Zimmermann (eds) (2006) *EMU Rules: The Political and Economic Consequences of European Monetary Integration*, Baden-Baden: Nomos publishing, ISBN 3-8329-1974-0.

<sup>2</sup> As organizer of that conference and guest editor of this special issue, the author expresses her thanks for a Jean Monnet Centre of Excellence grant from the European Commission to the University of Victoria, a SSHRC conference grant (646-2005-0107), and funds from the British Council, the German Consulate, and the University of Victoria, all of which contributed importantly to supporting the 18-19 August 2005 conference in Victoria B.C. Canada, and subsequently this publication. The author also extends her thanks to Melissa Padfield and in particular Ben Gonzalez for invaluable research and editorial assistance. She thanks the editors of *Current Politics and Economics of Europe*, Patrick Crowley and David Howarth, for their feedback, suggestions, and continuing support, as well as the sixteen anonymous referees who reviewed the papers in this publication. A final word of thanks goes to the participants of the August 2005 Victoria conference, who provided initial feedback and contributed to a first critical discussion of the earlier papers.