Economic and Monetary Union in Europe: Moving Beyond Maastricht

by Peter Kenen

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Since the start of the 1990s, important steps have been taken towards economic and monetary union (EMU) in Europe, most notably the creation of the European Monetary Institute, the nucleus of a future European Central Bank (ECB). However, at the time of writing (July 1996), it seems uncertain whether monetary union will be implemented within the deadlines set by the Maastricht Treaty (i.e., by 1999 at the latest) because few European Union (EU) countries satisfy the fiscal preconditions of the Treaty. Monetary union would entail a complete loss of national monetary policy autonomy, and it is thus not surprising that there is intense debate in Europe about whether monetary union is at all desirable and whether the transitional steps to EMU prescribed by the Masstricht Treaty make sense.

Peter Kenen's monograph provides a thorough analysis of the plan for EMU embodied in the Masstricht Treaty and a survey of the huge literature on EMU that has developed during the past years. It updates his 1992 book, *EMU After Maastricht* (Kenen, 1992), by incorporating the most recent literature and by adding a discussion of the implications, for the transition to EMU, of the severe exchange-rate crises that shook the European Monetary System (EMS) in 1992 and 1993.

Kenen gives a detailed exegesis of the provisions of the Maastricht Treaty that deal with EMU and a through discussion of the institutional framework of EMU. Also, the way a future ECB might conduct monetary policy, the implications of EMU of EU fiscal policy and possible consequences of EMU for the outside world are analyzed.

Each of these topics is addressed in the light of the literature on EMU and on economic integration. References to close to 300 academic and official documents on these issues are given. Kenen provides a balanced synthesis of this extensive material. Such a coherent and broad survey had been lacking so far.

Kenen's overall assessment of EMU is favorable, although he refuses to speculate whether EMU will succeed or whether it will even happen. He comes to the conclusion that the blueprint for EMU provided by the Maastricht Treaty "makes sense," although he shares the view of numerous critics that this blueprint is "imperfect and incomplete, because compromise sometimes triumphed over clarity." However, Kenen argues strongly against delaying EMU until full political integration has been achieved in Europe. This, he maintains, would be "inconsistent with the whole history of the Community, which has been built by taking risks, not by waiting until they have vanished" (p. 194).

Critics of EMU often focus on the fiscal preconditions for monetary union that are stipulated in the Treaty. Kenen, too, is highly critical of these requirements, in particular of the criterion that a country's ratio of government debt to GDP should not exceed 60%. However, he insists that fiscal preconditions are necessary to ensure that EU member states will respect the independence of the ECB. It may be tempting to propose (as Kenen does) amendments to the fiscal criteria of the Treaty. However, their chances of success seem extremely low, given, among other things, the unchangeable insistence of the Bundesbank that the Maastricht Treaty has to be implemented to the letter (Tietmeyer, 1996).

Kenen addresses the question of whether EMU would help to stabilize disruptive exchange-rate fluctuations at the global level. Interestingly, he suggests that this may not necessarily be the case. Under EMU, the EU will resemble a single economic bloc that might be less sensitive to exchange-rate fluctuations *vis-à-vis* the dollar and the yen than is presently the case. It can also be noted that Kenen is highly skeptical about the effectiveness of recent proposals that aim at reducing exchange-rate fluctuations by taxing foreign-exchange transactions, and that he argues that the widening of EMS exchange-rate bands made during the 1993 EMS crisis was a useful way to strengthen the EMS against future speculative attacks.

Space constraints preclude a thorough discussion of these points of view here. Instead, I point out some aspects of European monetary integration that would have deserved a more detailed analysis. As acknowledged by Kenen, the political dimension of EMU is essential. Supporters of EMU regard the establishment of a common currency as a key step towards political integration and they fear that failure to implement EMU would endanger past achievements concerning integration. To understand the politics of EMU, it is essential to take into consideration the numerous domestic political constraints to the implementation of EMU that exist in the individual EU member states. There is strong political opposition in the UK, Germany, Austria and Denmark to the abolition of the national currencies of these countries. The fate of EMU depends thus largely on the outcome of domestic political debate and power struggles, an aspect that is only relatively briefly touched upon in the book.

In addition, it would have been helpful if the book had provided more statistical data on basic economic variables (government budgets, inflation, exchange rates, interest rates, unemployment, etc.) relevant for the move to the common currency. The same remark applies to a careful quantitative assessment of the likely impact of EMU. Such an assessment was attempted by the European Commission and others a couple of years ago. That work is given relatively little attention by Kenen. Perhaps the author has reserved a treatment of this for later work (for a new edition of his book?).

In summary, this book is a valuable contribution that helps us understand the process of monetary integration in Europe. It is likely to become a standard reference on EMU and it can thus be recommended to students, researchers and policymakers alike. The book will be particularly useful to researchers (because of its well-organized and insightful survey of the extensive literature on EMU) and as a textbook for courses on European monetary affairs.

References

Kenen, P. (1992) *EMU after Maastricht*, Washington, DC: Group of Thirty.

Tietmeyer, H. (1996) *Stabiles Geld fur Deutschland und Europa*, Bonn: Deutsche Bundesbank, Auszüge aus Presseartikeln 29, pp. 1–4.