Book Review

Michele Chang (2009)

Monetary Integration in the European Union

Basingstoke: Palgrave Macmillan

Nikos Koutsiaras
University of Athens

Monetary unification has been the most fascinating aspect of European integration, both in view of its huge consequences for the political economy and the social landscape of Europe and because of its impact on the global monetary arrangements. Unsurprisingly, then, the tenth anniversary of the European Monetary Union (EMU) has been marked by a flurry of publishing activity, entailing books, special issues in academic journals, studies and reports. Michele Chang's book on European monetary integration has obviously been an entry in that long list of publications on EMU; yet, this book may hardly deserve a place bordering the high quality segment of the list.

The main thesis of this book, developed in nine chapters and summed up in the conclusion, is that European monetary integration has been a major political project, which has aimed to enhance political cooperation at the level of the European Union and amongst its member states, strengthening the influence of Europe in international monetary and financial affairs and, not least, increasing economic growth across the eurozone. It is maintained that the euro has so far amounted to no less than a remarkable achievement, but, largely owing to its politically negotiated institutional design, the efficacy and legitimacy of the EMU have largely been called into question – and may not readily be improved in the foreseeable future. However, this rather widespread view has unevenly and, sometimes, inadequately been argued, whilst lacking a coherent theoretical foundation. As a matter of fact, the so-called theoretical considerations, entailing a discussion of ideas, interests and institutions, allegedly explaining the political economy of European monetary unification across its various policy and institutional aspects and accordingly allocated in the nine chapters of the book, have not really managed to serve the purpose of theorising. Moreover, those very concepts, that is, ideas, interests and institutions, have not been employed consistently, let alone in a theoretically informed fashion. Unnecessary repetitions and unforgivable mistakes, most probably resulting from careless writing and/or editing, have further undermined the quality of this book, notwithstanding its fairly informative content and its sporadic analytically strong points.

Thus, the origins of European monetary integration (from the Bretton Woods system to the 1989 Delors Report) are dealt with in the second chapter of the book, where it is argued that, sometimes by virtue and other times by necessity, exchange rate stability has historically been factored in European integration strategies. However, the favourable effects of exchange rate stability on intra-Community trade and its positive implications for domestic macroeconomic credibility were, within the European Monetary System (EMS) context, in particular, being brought about asymmetrically across the member states, thereby leading to demands for a re-equilibrated system in the form of a monetary union. Nevertheless, this discussion has heavily relied on much earlier academic work and has, therefore, largely neglected the recent, partly revisionist literature associated with the so-called bipolar view and the political economy approach to exchange rate arrangements – and the section on ideas (pp. 37-38) has practically remained an empty cell.

The birth of the eurozone is examined in the third chapter, the main themes being the resilience of the monetary unification plans in the face of setbacks like the 1992-1993 Exchange Rate Mechanism (ERM) crisis, the successful launch of the monetary union, following the fulfilment of the Maastricht convergence criteria by eleven member states and, finally, the economic disappointment during the early days of the EMU, linked to a weakening euro, sluggish growth in the larger economies and a reform fatigue in member states, *inter alia* spelling troubles for the implementation of the Stability and Growth Pact (SGP). Although the chapter has few analytical ambitions, the reader might likely have expected some discussion of the rationale of the convergence criteria and might, in any case, have wanted a better and, at least, updated account of the optimum currency areas theory. The reader might, also, not have assumed that the supposedly theoretical section on institutions (pp. 68-69) would merely amount to summarising the discussion of the preceding sections. Finally, the reader might have demanded the precise formal definition of the convergence criteria (in p. 49, the price stability criterion is wrongly defined), a more careful handling of information (in p. 56, Portugal is set to have fulfilled all the criteria in 1997 and, then, again, in 1998) and, certainly, adequately justified arguments (on p. 62, the rejection of the Lithuanian application is, from the legal point of view, inappropriately contrasted with the approval of the Belgian and Italian applications when the EMU was launched).

The discussion of the institutions and decision-making processes of the EMU should preferably have been incorporated in the chapters dealing with the workings and policies of the eurozone, instead of having been attempted, yet satisfactorily, in a separate chapter (the fourth one), albeit at the cost of subsequent repetitions or, sometimes, omissions. As a matter of fact, the fifth chapter, on monetary policy and the European Central Bank (ECB), would have considerably been improved, had the issues of ECB independence, transparency and accountability been treated within a broader context, featuring the role of the Eurogroup/ECOFIN and, thus, raising the issue of coordinating monetary policy with fiscal and economic policy. As it stands, the chapter on monetary policy is conspicuously underdeveloped, also lacking a proper framework for evaluating monetary policy (strategy) and the ECB, whilst little accounting for the existent, allegedly sub-optimal institutional equilibrium – an interest-based explanation, or, even, part of the explanation, is only nominally present (pp.120-121).

However, the reader might find the chapter on economic policy coordination (the sixth one) informative, clear and, in part, good enough analytically. In fact, the literature on the SGP has been surveyed adequately and the major issues in the academic and political debate have broadly been identified, whilst a comparison of the initial and the reformed SGP has provided for a convenient background to – and framework for – the analysis. On the other hand, the discussion of the soft (or open) coordination dimension of economic governance, including the Broad Economic Policy Guidelines, the European Employment Strategy and the Lisbon Strategy, has mostly been descriptive rather than analytical. Thus, the issues of whether and what form of policy coordination is really needed have virtually been left untouched, whereas the "theoretical" part has almost exclusively dealt with the institutions, the sections on ideas and interests having been misleadingly separated.

Once again, a misleading separation of theoretical considerations with regard to ideas, interests and institutions is found in the seventh chapter, which deals with non-membership of the EMU and the enlargement of the eurozone. In fact, there has been little purely theoretical input in that part of the chapter and, certainly, there has been much less content on institutions, as conventionally conceptualised (for example, commitment to the sound money paradigm and its implications for trade and investment is a matter of economics and politics, not an institutional factor, p. 188). Nevertheless, the discussion of the politics and, to a lesser extent, of the economics pertaining to the opting-out of the UK and Denmark and the staying-out of Sweden has been quite satisfactory. The same roughly applies to the discussion of the convergence strategies of the new member states. Yet, the issue of whether a fast-track EMU entry, maybe associated with a relaxed interpretation of the convergence criteria, would in their case be desirable has not been assessed. Finally, to the reader's annoyance, the Maastricht convergence criteria are presented in this chapter for a second time and the price stability criterion is once again wrongly defined (p. 162), alas, not consistently so (also see p. 49).

A fair account of the international role of the euro is provided in the eighth chapter, running through the themes of the euro's share in international transactions, the external representation of the eurozone and its exchange rate policy. It is argued, adequately, that as a result of divergent national policy preferences and its complex governance structure, the eurozone will not be able to exercise strong leadership in the foreseeable future, nor will the euro challenge the dollar's status as an international anchor currency. However, the reader might be surprised to read that, with regard to the issue of the current global imbalances, the Asian economies are reluctant to allow their currencies to depreciate against the dollar, or that a rising dollar would make European exports less competitive, or that weakening Asian currencies are critical to dealing with global imbalances (p. 217). Once again, one might wonder about the meaning of the theoretical considerations in this chapter, particularly the section on institutions.

The final chapter, providing an initial balance sheet for the eurozone, is probably the best one. The discussion is focused on the effects of the EMU on trade, public finances, reform and convergence and an emphasis is placed on future policy and political challenges, whilst an optimistic verdict is broadly reached. Yet, had the *ex post* evaluation of the monetary policy been taken into account, as documented in the vast literature, the balance sheet would have been almost complete, whilst better informed conclusions in regard to the efficacy and the output legitimacy of the ECB and, ultimately, the sustainability of the EMU would certainly have been produced.

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