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Juan Luis Millan Pereira

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I. Introduction

From the end of World War II, Western economies enjoyed an intense and almost continuous growth period which lasted about a quarter century. One the factors contributing to this growth is the change that happened in the dominant productive paradigm: a new way to organize work, *fordism*, large scale production and mass consumption. One of the most important circumstances for this change occured in the international sphere. The idea that national borders are a barrier, a limitation for the optimal development of economic activities ultimately prevailed over the mainly protectionist approach that was characteristic of the previous period.

An especially important result of this new way of understanding trade relationships is the GATT (General Agreement on Tariffs and Trade), an agreement under which signatory States agree to end up progressively with the barriers to free movement of goods and productive factors between States. From now on, international trade shows an unparalleled development. This development produces a radical change in the practice of private agents, now carrying out their activity in an wider markets —sometimes worldwide markets — and in a more competitive context. It also changes the practice of governments, which are now compelled to create policies in collusion with the liberalizing trade option that has been chosen. These changes are an important impulse for the creation of regional trade blocks, whose structure, depending on the cases, will be more or less formal. These regional trade blocks become necessary spaces to warrant an optimal exploitation of productive specialization and large scale production.

Of all available examples, the most outstanding are those of six states during the Fifties: France, the German Federal Republic, the Netherlands, Belgium, Luxembourg and Italy. In the sectorial sphere, they created in 1951 the European Coal and Steel Community (ECSC), under which a common market for that economic sector is established (article 1, ECSC Treaty). In 1957, they created the European Atomic Energy Community (EURATOM), whose aim was to collaborate on the establishment of the necessary conditions for the creation of a common market of materials and specialized equipment in the field of nuclear energy, as well as to collaborate on the fast development of this industry (articles 1 and 2 of the EURATOM Treaty).

In the same year, another integration organization with a wider reach was created: the European Economic Community (EEC), which intended to achieve the creation of a customs union, the free movement of production factors (persons, enterprises, services and capital), the free competition of economic operators within that market, the harmonization of general economic policies and the enforcement of common sectorial policies (agriculture, transportation and trade relationships with third states).

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As we said previously, these three European Communities are outstanding examples of trade blocks. First because, due to their impulse, trade between the different associated States showed a very fast development, quite higher than the one of other regional blocks. Secondly, because the formal expression of these Communities is very advanced, and their organizational structure is also well developed, reflected particularly by the part related to integration organizations involving the cession of a certain degree of sovereignty by member States to the supranational authority.

A. Economic Restructuring During the Eighties and World Market Consolidation.

This scheme of economic and social reproduction shows its first exhaustion symptoms in the late Sixties and suffered a crisis during the first half of the Seventies. After a relatively long period of adjustment, the majority response to the crisis — that finally turned out to be able to overcome the lack of growth and the problems of unemployment and inflation— suppose a real revolution of a great part of the economic principles dominant until that moment. The element that introduced a great number of opportunities for change was the intense rhythm of technological advances, especially the advance in information technology.

From then on, a series of growth strategies are developed, strategies involving the creation of actual integrated markets at a worldwide level in the spheres of production, trade and finance. The great world corporations, which now are now called *transnational corporations*, reduce the importance of existing national links and emphasize worldwide distribution of different production stages. Meanwhile, capital move freely through financial markets that are totally integrated and operate in real time, searching for the most profitable investment opportunities (both productive and financial). In other words, multinational capital becomes the strategic factor of this new period of accumulation.

This means that the process of change and modification of the material basis of the economic organization was directed from the sphere of enterprises. However, the change that happened was very difficult without the clear support of the national governments to contribute actively to restructure the system.

Facing the paradigm of public intervention as a means to stabilize the economy, to redistribute income and to solve the mistakes of the market, the kindness of the market as an optimal mechanism to assign resources and with an autonomic capacity of self-regulation — if the relationships between the agents are established without exogenous interventions that may condition or limit them, especially without those interventions from the public sector— prevails as the dominant criterion.

The transformation of the patterns of government intervention is also reflected in the budgetary sphere, where we can find strict limitations to the growth of public expenditure in order to favor its financial reorganization and the liberalization of the savings related to financing. It is also reflected in the important and generalized processes of privatization of public enterprises that take place, and in the reformation of the taxation systems in order to encourage their neutrality —to the detriment of their redistributive capacity and of the object of equity—, as well as in working relationships, that experienced a deregulation process affecting essential aspects of the traditional protection of public sector to wage-earners.

This new orthodoxy defines a project with a conservative nature, a project that later was called *neoliberalizationl.* It starts in the United States and the United Kingdom, but it spread progressively to all the developed world, including the States belonging to European Economic Community, birthplace of the mixed economy and of the modern welfare State, where an important part of these changes were included in the Treaties modifying the Treaties Establishing the European Communities.

B. International Trade and the European Union

As these international organizations are prominently economic in nature, it is obvious that some parallels may be drawn between the necessary reformation of the economic system to face changing circumstances and the process of building European Communities. ECSC and EURATOM were, as shown before, projects envisaged to establish an integrated sectorial space between six European States. However, the EEC intended to achieve some objectives that where more ambitious, especially:

> to promote throughout the Community a harmonious development of economic activities, a balanced an continuous expansion, a growing stability, the fast rising of standard of living and of closest relationships between Member States (article 2, Treaty Establishing the EEC, Rome, March-27-1957)

The main instruments that the European Communities used to reach these objectives were designed according to the principles of a open market economy and with free competition.[1]

The content of the Treaty of Rome is the result of a series of vectors gathering in the same comprehensive strategy. This strategy is favored by those liberalizing guidelines the European States engaged to under the agreements signed to receive the aid of the Marshall Plan, and also by the determination of, especially, Jean Monnet.[2] Monnet, considered as *Europe's father*, was totally convinced that, facing the trade policy that was commoner in the time of reciprocal interchanges, the progress of Europe should be joined by the increase of economic and trade interdependence, by the use of scale economies and the amplification of the markets. This integrator option is the first stage of a long process that involves the development of patterns entailing a reduction of the discretionary performance capacity of nationals governments in the economic subject.

However, at the beginning of the Eighties the EEC was just a privileged example of a customs union, integrated by a series of countries with a deep economic crisis, and its collaboration to solve this crisis was minimum. With a huge lack of credibility and self-confidence, with its aims exhausted and with a

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1 Treaty Establishing the European Community, Part One: Principles, Mar. 25, 1957, art. 3.

2 Monnet made his name by the decisive role he played in France, with the Minister of Foreign Affairs, Robert Schuman, for the establishment of the*Commissariat Géneral du Plan*, and the creation of a program to rebuild the crumbled French economy after the war and to modernize the industry, what (since it involved a high degree of government intervention) was called *indicative planning.*

very limited policy, the situation was known as *eurosclerosis* or *europesimism*. The relaunch of the European project would not be possible without a new definition of its strategic guidelines, in order to adapt them to the political needs and economic circumstances of the new historical moment.

The keys for the economic restructuring were based on two opposite models: the liberal model, started by the governments of the United States and United Kingdom, as it has been said before, and the social democrat model, whose main exponent was the economic program applied in France when the socialist François Mitterrand became the President of the Republic. However, the second model was soon rejected due both to the success of its "rival" and to its relative failure a few years after its enforcement in France.

The first Mitterrand government proposed a classic program, based on Keynes, where the public sector was placed in the center of the economic recuperation project, and it was called *la relance*, that is, relaunch. Some of its most important elements were the increase of the control and the public coordination of the main economic sectors, the nationalization and/or the increase of the government's presence as shareholder in many important enterprises, the increase of the social expenditure, the reformation of the direct imposition and the increase of the progressiveness of tax system, as well as a certain degree of protection of the national industries in order to safeguard them from the external competition.

But this program was clearly rejected by the economic powers, especially by those who operated in the capital markets. National and international investors, "scared" by the content of the socialist program, left the country and, consequently, provoked an important crisis in the national stock markets, what favored the depreciation of the franc, as well as continuous speculative attacks to this currency, what involved a decrease of the economic growth and an increase of the inflation.

The task of changing this process and of reorganizing French economy was assigned to Jacques Delors, outstanding socialist politician who was in favor of the so called "new left", and whose view of economy was very influenced by Jean Monnet. In 1983 he was appointed as Minister of Economy, Finances and Budgets, and he introduced some discipline and austerity in the government action. He also undertook to keep the franc within the change system of the European Monetary System (subject to previous parity readjusts[3]), what allowed the consolidation of the exchange system and collaborated to the impulse of the process of Europe's economic integration.

The actual reach of these changes is remarkable, as they involve, on the one hand, that agents operating in capital markets have the capacity to veto and to prevent the success of a certain economic policy, especially when that policy entails a higher degree of public intervention. On the other hand, it involves the acceptation of the market's values (productiveness increases, external liberalism, technological and efficiency improvements) as the actual

3 Particularly, the German mark was revalued, whereas French franc was devalued in order to adjust the value of both currencies to the changes in the economic circumstances and, especially to those change of political nature, that took place. This fact supposed the end of speculative attacks to the franc (as well as of its instability), whose value would now be very stable (strong franc) and would evolution from now on in close connection to the mark.

determinants in the societies material improvement.

So, the French social democrat model had faded away as the instructor of the change that Europe needed to go out its paralysis. But neither the angle-saxon model was supported by a considerable number of Community States.

The solution that was finally adopted had elements from both models, although, in general, it involved a great deal of confidence in the markets, as well as a determined support to economic globalization and trade liberalism. From that derives a deep re-conceptualization of the role of the governments, as well as the role of the Community institutions in the control and regulation of the economies.

C. The Single European Act: the Consolidation of a New Economic Project

The appointment of Jacques Delors as president of the European Commission in 1984 helped to give a new rhythm to the process of building of Europe from the second half ot the eighties, menaced by immobilist pressures that had stopped the institutional development process and had blocked the majority of the projects with a certain reach.

The new president was convinced that the understanding, regulation and stimulus of the new economy and the economic progress were out of the narrow national sphere. But, apart from determined will and conviction, to end up with the immobilist inertia it was necessary to define one or some projects that filled with enthusiasm Member States and got their unanimous support. These projects were in collusion with the opinion, every time more popular, that the public sector should play a reduced part in the economy's regulation. The projects also were a determined support to the free-trade approaches that advocated for a trade without or with scarce barriers: the single market and the single currency.

Actually, none of two was really new, but now they were emphasized. The single market was one of the wishes establishing EEC, but now it was planned with a wider reach. Regarding the single currency, it had already been foreseen in La Hague Congress in 1969 and defended in Werner Report (1970), with other proposals related to the centralization of decision making on the subject of monetary policy and control of liquidity creation processes.

Regarding the establishment process of the single market, it was defined in the Single European Act, a Treaty modifying the Treaty Establishing the EEC (1957), which, after it was approved by the twelve Member States, entered into forced on July 1, 1987. In that Treaty was thoroughly accepted the creation of a space with no barriers where persons, capitals and goods can move freely. The 1 January 1993 was set as the limit date for its application.

The Single European Act supposed, for a lot of people, a deep change in the orientation of the European integration process, whose keys experience a relevant transformation. It involves a effective unblocking of the process of creation of an integrated economic space, but we cannot see significant advances in subjects related to the social, real and politic integration that had always been a part of the dominant principles that had inspired the process of building of a United Europe.[4]

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4 The different velocities that, especially from that moment on, get in Europe the

In fact, no measures were established with the necessary intensity to conceal the increase of territorial imbalances that probably would occur as a consequence of economic integration and of the creation of a single market between countries with a very different level of development. In this sense, the various reports ordered by the Commission at the end of the eighties to analyze this effects reached quite important conclusions. So, in the so-called Padoa-Schioppa Report was stated that "regions just search to equal their per capita incomes, as a result of the movement of capitals and workers, under some exceptional conditions and not realistic at all [...] History and economic theory show that any extrapolation of the 'invisible hand' theory to the real world of regional economy, in presence of market opening measures, would lack of any basement."[5]

Moreover, P. Cecchinni Report suggested that market's liberalization would worsen the regional unbalances and it would be necessary to apply additional measures to facilitate the convergence of those less developed areas.[6] In the same sense, MacDougall Report, elaborated ten years before, talked about the "intrinsically imbalacing" nature of the growth model supported by the Community. This report also considered that a solvent correction of those imbalances would need resources equivalent to between five percent and seven percent of the Community GNP.

We can deduce from what we have said that the integration of unlike economic structures and very different spaces does not guarantee an harmonic and convergent development of standards of life in every geographic area, but rather the opposite. The idea that with integration "we all win" is not fulfilled because the market's expansion favors the richest areas, as they enjoy scale, localization and integration economies (derived from the application of advanced technologies, of the high degree of capital concentration, of the proximity of auxiliary industries, of the easy connection with important transport and communication centers, of the existence of highly skilled workers, etc.).

As P. Krugman[7] remarks, these circumstances determine the production's specialization in a quite higher degree than the comparative advantage that might derive from a hypothetical availability of intermediate inputs cheaper in the less developed countries that might contribute to its greater relative development.

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monetary and market integration processes on the one hand, and the economic and political integration processes on the other hand have been very criticized *See* Michael M. Mussa, *Political and Institutional Commitment to a Common Currency*, 87AMERICAN ECONOMIC REVIEW 2, May 1997, 217-20; *and* V. Hagen. "Credible roads to EMU", in M. Uzan (ed.). *The financial system under stress. An architecture for the new world,*. Routledge: New York, 1996. Francisco J. Fonseca Morillo & Juan A. Martin Burgos, *La Unión Europea: génesis de Maastrich*, REVISTA DE INSTITUCIONES EUROPEAS, n° 19, 1992, 517-561.

[5] Padoa-Schioppa Report, *Eficacia, estabilidad y equidad. Una estrategia para la evolución del sistema conómico de la Comunidad Europea*, 1987, p. 121.

[6] PAOLO CECCHINI, ET. AL., THE EUROPEAN CHALLENGE, 1992: THE BENEFITS OF A SINGLE MARKET (John Robinson, ed Gower 1988).

[7] PAUL R. KRUGMAN, GEOGRAPHY AND TRADE (Leuven University Press, et. al. eds., 1991).

However, it happened that over these advises there was a determined will of all the governments to incorporate totally to the Community project: the more developed States, due to the clear advantages that derived from this process; and those less developed, because they wanted to end up with their political isolation, since in most of the cases they had just ended up with a long time of dictatorship. Another important reason for those less developed countries were the specifics aids created to try to help their situation, Cohesion Funds, even if their quantities were considerably far away from those estimated as necessary, for instance, in MacDougall report[8].

D. The Single European Act and the Intervention of Governments in the Economy

But the economic integration process defined in the Single European Act with the (theoretical) aim of using the reciprocal advantages derived from the governments' productive specialization, has also other relevant implications related to the States' capacity to interfere and to regulate economic facts.

First of all, it supposes a effective transfer of decision spheres from national capitals to Brussels, to the Community. Particularly, to the Commision, that becomes a big autonomic official entity, with capacity to legislate on a great amount of subjects and to impose its decisions to Member States, who are obliged to comply them and/or to include them in their internal legal systems. However, differing from national governments, the Commision are just submitted to a small parliamentary control.[9]

Secondly, it supposes the effective refusal to apply discretionary national measures in trade policy and competition promotion subjects in the Community sphere. It also involves an unlimited confidence in the market's capacity to correct, on its own, the economic problems that may arise. The theoretical conception that underlies behind this planning states that problems derived from the existence of competition differentials shall be solved through the prices mechanism.

However, it happens that the reality shows that productive factors' prices are not very flexible when they are declining and that the mobility of the employment is quite inferior than the one of the rest of resources, what produces the appearance of unemployment as an adjust variable.

Thirdly, it favors the convergence of any other economic policy in just one sense: the international competition established by prices favors the decrease of the public sector's presence in financial and environment protection spheres, as well as in those spheres related to the protection, from the welfare State, of those less favored groups, due to the additional cost that these interventions include in a national production that must compete with those

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[8] This situation continues and worsens in the new financial framework that *Agenda 2000* supposes, where additional resources are not included, for example to face the costs of the EU's expansion towards the East, as well as the new definition expéenced by Structural Funds' objectives. In this sense, J. Colom i Naval's opinion is clarifying: "puede decirse que el conjunto de la Agenda 2000 está supeditad a la ampliación y que, en función de ésta, se orientan todas las demás políticas y, más precisamente, en función de conseguir financiar la ampliación sin aumento del presupuesto" ("Agenda 2000: nuevas perspectivas financieras para la UE", in *Información Comercial Española*, nº 776, February 1999, p. 33).

[9] *Cf.* D. Yerguin and J. Stanislaw, op. cit. pp. 467 and ss.

from another countries where public regulation is "more favorable."

As A. Grjevine says, it seemed that European countries refused their autonomy in benefit of a Community macroeconomic policy that actually does not exist. National macroeconomic policies have got no European substitute. Thus, we are going progressively towards a pure and simple abandonment of the economic policy.[10]

E. The Backgrounds of the European Monetary Union

The second great project around which is articulated the relaunch of the process of building of Europe is the creation of a Monetary Union. Behind this project underlies the idea that the advantages of the international productive specialization will only be used to its maximum if payments between States take place in conditions of confidence about the value and convertibility of the currencies. That is, without monetary uncertainty. These objectives have been answered by the different Monetary Systems or exchange regimes designed through the history and, of course, by the regime that was created in Bretton Woods Agreements in 1944.

This institution created an unparalleled monetary world stability that, in addition, was enhanced at a regional level by the creation in 1950 of the Payment European Union, which warranted a wide convertibility of the included currencies. Thus, and also because the just ended war that had confronted the new economic partners recommended to delay the discussion about a subject as delicate and linked to national sovereignty as currency, the Treaty of Rome hardly considers in a marginal way the monetary subjects.

But once completed the first stage of institutional consolidation and enforced the first Community policies, the Commission wondered about the convenience of advancing in the monetary integration project. This was influenced, between other reasons, by the increasing lost of confidence in the American currency, as a result of the increase of the number of circulating dollars in a ratio much higher than the increase of gold in the Federal Reserve.

Its main ideas were reflected in the *Community's action program during the second stage of the Common Market* (1962), where, by first time, appears the idea, though very shyly, of the establishment of a monetary union by stages. Despite the agreements included in this Program, the decade is characterized by the systematic violation, by different European States, of the signed monetary agreements —Italy, France and Federal Germany modified the exchange rates of their currencies without the already obligatory authorization of the European authorities—, and also by the existence of opposite approaches within the Community in the subject of monetary cooperation.

Only at the end of the decade some wishes are united and in The Hague summit, in December 1969, the common project of monetary union is relaunched. All this is favored, on one hand, by the need to give a response to the progressive disintegration of the International Monetary System, what significantly reduced the growth possibilities derived from intra-Community trade. And, on the other hand, by the increase of the financial dependence

[10] A. Grjevine, *Aprés Maastricht: des ècurs et des chômeurs?* at 7, (Cntre d' Etudes et des Recherches Internationales de la Fondation National des Sciences Politiques, Working Paper No. 3, 1992).

between the developed countries, what increases the vulnerability of national financial markets to perturbations of this nature that may take place in the international sphere.

The final agreement, known as Werner Report (1970) and mainly included in the Council Resolution of March 1971, proposes a simultaneous advance in the subject of coordination of economic policies and monetary integration to be carried out in different stages during that decade. However, the monetary union project was left aside as a consequence of the international affairs' evolution.

In the monetary sphere, there are important speculative tensions against the dollar that compel to let the german mark and the dutch florin float freely. Meanwhile, the American government declares in 1971 the non-convertibility of the dollar in gold. The Washington Agreements (1972) hardly get to restore the calm to international financial markets. and the post-war International Monetary System fails in 1973. From that year on, a flexible exchange rate system is established. And in the real sphere, the structural crisis of the majority of States' productive systems is joined by the mark-up in the prices of energetic products.

With these circumstances, and due to the lack of precision of the monetary integration plan, European governments agreed different controlled floatation systems for their currencies. These systems were characterized by improvisation and by the lack of effective and symmetric intervention mechanisms to warrant their fulfillment. The European Monetary Snake (in and out of the tunnel) is a good example.

During its operation period, there were numerous realignments and many entries and exits of currencies in the exchange mechanism, provoked by the monetary speculation and the evolution of the participant governments' political wish, what shows in a great measure its relative failure.

F. The European Monetary System: Predecessor of the European Monetary Union

Despite these facts, the idea that it was necessary to advance in monetary coordination (common monetary policy, complete convertibility of currencies and stable exchange rates) continued unaltered and even enhanced by the conjunction of a series of works in the second half of the seventies, especially by the *Optica* reports. On the basis of these theoretical contributions, and once solved the most serious effects of this first stage of the economic crisis —what allowed to deepen into another fields of political action—, the European Monetary System was designed. This system, after being passed in the Brussels summit, came into force in 1979.

The basis of this new stable but adjustable exchange rates system, with a basket-type currency (the European Currency Unit or *ecu*),[11] was not very far away from the basis contained in the European Monetary Snake. This was due, between many other reasons, to the fact that despite its limitations, it was able to establish considerably the value of the European currencies, especially when compared to the other currencies. It was necessary to overcome some national

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11 The denomination of the single European currency was modified in the European Council of Madrid 1996, where its name was changed by *euro*.

oppositions and to correct some technical deficiencies related, especially, to the mechanisms used in order to detect the divergent currency, and to the improvement of the financial support mechanisms' for the parity sustainibility.

The new system was able to join the majority of the countries' reluctance in the monetary subject, as it can be proved by the fact that all the countries, except Great Britain, joined this system and its exchange mechanism, whose appurtenance was voluntary. If we do not consider the unavoidable speculative chapters, we can conclude that during the EMS's operation years, it worked in the right way from the monetary point of view, despite the 11 central parity modifications that happened between 1979 and 1990. These modifications can be explained by the unequal effectiveness of the national policies to face the new energetic impacts and to keep their external balances in function of the national productive systems' evolution and of the international trade's new tendencies.

The success in the sphere of monetary stability attributable to the EMS encouraged the Community authorities to deepen into the monetary cooperation, more and more convinced that the advantages of the single market could only be used to the maximum if the interchanges were carried out with currencies submitted to a set of rules even stricter and, above all, if a Monetary Union was created.

G. The Maastricht Treaty and the European Monetary Union

With the aim of getting going the Economic and Monetary Union (EMU), the Commission ordered a report —later known as Delors Report— where, as well as analyzing the possible consequences that may derive from the Union, they established the conditions and requirements to be met to create a Monetary Union globally profitable from an economic point of view.

The project became more definite, in a political sphere, first in the Council of Rome in 1990 and, specially, in the Maastricht Treaty in 1991, where the monetary union received the unanimous support of the Member States, since it was defined in close collusion with characteristic principles of the dominant liberal ideology, which was in that moment in its period of greatest importance.

The theoretical advantages of the EMU were presented in the Emerson Report (1990), better known as *One Market One Money*. Those in charge of the theoretical content of that report ensured that the EMU would contribute to a higher degree of microeconomic effectiveness, macroeconomic stability and equity within the European Union.

In a more precise way, and following partially the exposition made by M. Ahijado,[12] the most remarkable advantages, from a theoretical point of view, derived from the set of a single currency are:

(*i*) *Any* uncertainty related to the exchange rates' evolution shall disappear, and the comparison of the goods' prices is favored, what helps the development of any kind of economic transaction within the Union.

(*ii*) The reduction of the interest rates in European economies is favored by the higher credibility of the new European monetary authority (the

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12 MANUEL AHIJADO, LA UNIÓN ECONÓMICA Y MONETARIA EUROPEA. MITOS Y REALIDADES, (Pirámides 1998).

European Central Bank), as well as the increase of the competition between financial intermediates.

(iii) Transaction costs related to Community currencies exchange operations would be eliminated, that is, the costs of the financial intermediates (commissions, differentials between buying and selling prices, etc.) disappear.

These three advantages insist on the idea that the single currency intensifies the degree of economic integration between the countries of the European Union, that it promotes competition and favors the appear of scale economies, since it eliminates monetary barriers that make difficult an authentic single market.

(iv) It favors the prices' stability by at least two reasons: first of all, because of the disappearance of the possibility to correct by modification in the exchange rates the effects on the trade of the inflation differentials between countries. And in second place, because the new Central Bank's independence status isolates its decisions from any political influence, especially from the public deficit's monetary financing attempts.

(v) It increases the standards of investments, because the interest rates decrease as a consequence of the new favorable expectations that arise with the integration.

Despite what has been said, it is remarkable the fact that in spite of the considerable benefits that are expected from a theoretical point of view, the examples of monetary integration in the world are the exception. In Europe, for example and if we except the singular cases still into force of the Belgium and Luxembourg monetary union, and the one of Germany after its reunification — preceded by a political union—, the rest of unionist experiences failed, in the best of the cases, only a few decades after its establishment. All that suggests that the creation of a monetary union, as well as the logical technical problems and political objections, has also some doubts from an economic point of view. The referred advantages are joined by costs and limitations that, in function of its size, may advise against the union.

H. The Advantages of the EMU Under Debate

The first great theoretical contribution to the study of the problem of the adoption of a fixed exchange rates system, inherent characteristic of every monetary union, is dated in 1953 and it is due to M. Friedman. In his work *Essays in Positive Economics*, the American states that "a flexible or floating exchange rate system... [is] absolutely essential to reach our fundamental economic objective: to get and hold a free and flourishing world community with a multilateral trade without restrictions. There is hardly some aspects of the international economy where the implicit acceptation of a fixed exchange rate system does not suppose serious problems or obstacles." But in addition to this general objection, applicable to each monetary union, the EMU has got another specific limitations and costs.

1. Limitations

The supposed advantages before mentioned inherent to every monetary system with a single currency must be explained:

(a) The single currency's contribution to the monetary stability in Europe

may be less decisive than what is thought, since the speculative chapters, for instance, will not disappear. There will only be a change in the actors: now the new European currency, the euro, will take the place of national currencies in this sphere, and also in relation to the rest of international currencies, where there is a freely floating exchange rate.[13]

(*b*) The transaction costs associated to the operations of currency exchange in order to make changes with foreign countries are, in practice, very reduced. In fact, a remarkable percentage of international transactions take place between different sections of a transnational enterprise, so the payments do not suppose, nowadays and without a single currency, any transaction costs. Transactions on large scale between countries with a high degree of reciprocal trade, as it happens in the European Union, are carried out with payment compensation systems between States that involve no currency exchange.

(*c*) Finally, the monetary uncertainty does not play. in international trade, the part that it has played in another times, so its reduction will hardly have positives effects on that trade. Nowadays the future markets act as actual anti-risk insurance for all those who carry out economic operations abroad.

2. Costs

The implantation of a single currency in Europe also implies some costs. We can point out, as the most significant, the following ones:

(*a*) It supposes the refusal to the exchange rate as an economic stabilization instrument for external distortions. That is, as a faster and less costly adjust variable, capable to correct a part of the defaults created by international shocks, to keep the international competition degree of the country affected by an asymmetrical distortion, and to recover its macroeconomic stability.

(*b*) In the same way, the exchange rate disappears as an automatic adjust variable when distortions have an internal origin. When, due to any kind of reason (for example, the damage of productive structures, increase of labor troubles, decrease of enterprise competition, natural disasters, etc.), there is a mark-up in prices and production costs in a country in comparison to the other countries, its currency's devaluation —and so it has happened in the last decades— supposes an automatic adjust mechanism, allowing that country to hold its external trade share and preventing it from an additional damage in its productive activity and employment due to the imbalance.

(*c*) And finally, as it is impossible to modify the exchange rate, the global markets impose the deflation as a preferable strategy by the States to continue with the degree of competition of their economies and their presence in international markets.

In this way, financial incentives to the incorporation of new technologies in productive processes are intensified in order to reduce unitary costs in manufacture; the evolution of salaries (wages and social contributions) is made responsible for the competition's losses: therefore, its evolution is firmly controlled; the sustainibility of Welfare State is discussed, while its financing lies mainly on resources that produce a rise in production costs and makes more difficult to place national products abroad, etc.

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[13] *Cf.* BARRY J. EICHENGREEN, .TOWARDS A NEW INTERNATIONAL FINANCIAL ACHITECTURE (Institute for International Economics 1999).

In all the cases, we are dealing with measures with important resdistributive implications, though all the measures have a clear regressive character, as the main affected are wage-earners and those assisted by social protection systems.

3. Tipping the balance

Taking into account what has been said before, the creation of a monetary union —in addition to cultural, social, historic and, especially, politic considerations that we want to make—, requires a consideration as exhaustive as possible of the advantages and costs that may derive from that union.

In this sense, all theoretical contributions agree when they point out that under some circumstances (if the economies meet some requirements), the integration's advantages are maximized and its costs minimized. So it is set the concept of *optimal monetary area* or *zone* that M. Ahijado and M. Navascués, for example, define as the geographical zone where there are a series of conditions that allow to do without the exchange rate and to get profit from the savings in transaction costs and change risk that flexible exchange rates involve.[14]

Although there is no unanimity, the conditions that appear more frequently in economic literature about this matter are:

(*a*) Goods, services and productive national factors markets must be very flexible. That is, they must be free from foreign intervention preventing the prices to react quickly to the changes that may take place in buying and selling orders.

(*b*) A similar degree of opening between the integrated countries, as well as similar characteristics of their trades, similar industry composition and similar degree of financial development.

(*c*) An important volume of financial transfers to warrant interregional and interpersonal solidarity, at least during the first stage.

(*d*) And finally, integrated countries must show evident similarities in their internal prices and reduction rates.

If we do not consider the last condition, for whose consecution European countries have made remarkable efforts since the Maastricht Treaty was signed (where these two variables are defined as convergence criteria), and nowadays, according to what was agreed in the Stability Agreement signed by the Member States of the European Union, none of the other conditions is totally fulfilled.[15]

Goods, services and productive factors markets, and singularly the employment market, have a high degree of inflexibility as a consequence, between other reasons, of the remarkable degree of intervention that there is in every EU's economy. This intervention is due to the important protection and regulation action that the European governments, without exception, carry out. The differences in the rate and volume of external opening, the composition of the industry and the financial network are huge, for example, between center-

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[14] MANUEL AHIJADO & M. NAVACUES, LECTURAS SOBRE UNIÓN ECONÓMICA Y MONETARIA EUROPEA. UNIONES HISTÓRICAS Y ÁREAS MONETARIAS ÓPTIMAS (Pirámides 1998).

[15] *See* JUAN JOSE R. CALAZA, TEORÍA ECONÓMICA DE LA MONEDA ÚNICA (Pirámides 1999) (for an exhaustive analysis of the nonoptimal nature of the EMU in Chapter 2).

European economies and those of the South. And financial transfers with a redistributive nature suppose hardly a remain, not only compared to the Community's GNP, but also within its own budget.

At most, we can say that in the EMU there is a quasi-optimal area (but not even in these case all the requirements would be met), integrated by Germany, the Benelux, Austria, France and some nordic countries that, consequently, would be the most benefited from all this process of monetary union. But paradoxically, those are the countries with higher standards of economic development. Thus, taking into account these considerations, it is not difficult to conclude that the EMU, probably and such as it was foreseen in the case of the economic union, will produce a worsening of the interregional differences between Member States.

All this does not mean that the rest of countries do not get any profit of the monetary union (they will, if the union entails more advantages than economic costs), but, since they do not fulfill the referred conditions, the monetary union's costs are very high. In these conditions, it would have been advisable to make a strict and impartial previous study of the advantages and costs of the single currency's implantation, especially by those States situated out the quasi-optimal area. This study should also be considered when deciding the evolution of economic facts. However, nothing of that has happened, partly by the difficulty of the said study, partly because there was a determined political wish to introduce the *euro*, no matter neither the circumstances nor the costs.

II. Conclusion: The Consolidation of a New Economic Orthodoxy in Europe

As it has been stated before, the idea that the evolution towards the monetary union required that the countries had a degree of economic homogeneity was a constant, both for those studying the subject and for the members of the experts committee (presided by Delors), in charge of the preparatory works previous to the single currency.

The "convergence criteria" were set from that point of view, as obligatory requirements to access to the monetary union in homogeneous circumstances. Therefore, the interested States made remarkable efforts to meet them and designed their economic national policies in the service of those requirements.

Many people, from many different points of view, have criticized those criteria. These opinions have been based on very different aspects, from their rejection because they do not warrant the real convergence of European economies, until the denial of their nature of necessary requirement for the establishing of an optimal monetary area. Maastricht convergence criteria, as well as the institutional network designed in the EMU or the establishment of the periods, were the result of a complex forces balance —forces that sometimes were opposite and with circumstantially coincident interests—, more than the result of an exhaustive analysis of the necessary conditions for the success of the monetary union.

This does not mean that all the steps of the process had no economic logic because they were only the result of an political agreement with concessions. For instance, the similarity of the interest rates is located in an economic space where capitals move freely, although its definition has not been complete. But other requirements are very influenced by certain opinions with a soft scientific basis, but with a clear political interest.

For example, of the established limit for the volume of national debt that the government could hold, which was set in 60 percent of the GNP, in great deal because most candidates to the EMU had a debt levels around that ratio, and to ensure a degree of budgetary discipline and austerity in public expenditure, no matter the political tendency of the future governments. To the same objective contributed the criterion that set in 3 percent of the GNP the maximum annual public budget deficit. Or the European Central Bank's objectives and competence —designed as those of the Bundesbank which became the authentic guardian of Europe's economic orthodoxy.

The time has given, in a great deal, the reason to those who stated that the way that had been chosen to get the EMU was just one between the many possibilities, and that it had been chosen by reasons that hardly agreed with the economic interests of the majority. This way had been organized in stages, conditions and requirements that were supposed to be necessary to conclude successfully the process, assumed without too many barriers by the public opinion since they were considered unavoidable for a desirable project, the European integration. These stages, conditions and requirements were not enough for the EU to be considered as *optimal monetary area*, but they were, however, enough as neoliberal necessary adjust measures to make economic systems more flexible, to restore the markets' power in the government of the economies, and to improve the profitability possibilities of the private capitals.

All that has been confirmed, for instance, by the following facts: in first place, by the approval of the Stability Agreement in december 1996 in Dublin Council. It is a mechanism introduced at the request of the German government and under which is delayed *sine die* the objective of the public expenditure control, since those States with an annual budgetary deficit higher than 3 percent are punished, even after their access to the single currency.[16] And in second place, because finally a great deal of countries have been authorized —included Germany— to access to the third and last stage of the EMU, even if they did no meet all the convergence criteria, without considering in a literal way some of the principles of the EMU Treaty and stating that those principles were not realistic, were not necessary or were just an excuse to carry out some adjusts in the economies.

Consequently, from what we have exposed, we can deduce that the modern monetary union process does not suppose a valid initiative to favor a balance development of Europe. However, it is an efficient, until a certain extent, mechanism to promote trade interchanges and, above all, to restructure the European economies in order to set them in service of the globalization and

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16 Member States must present, under that Agreement, their Stability Programs, where they shall explain their annual deficit objectives. Only if there are, in the opinion of the Council (Ecofin), exceptional circumstances—annual fall of, at least, 2 percent of the GNP as the general tendency— that "excessive deficit" shall be allowed. If it were not like that, fines —not remunerated deposits that are lost if the country does not correct the situation in two years— would be of 0.2 percent of the GNP and an additional tenth for every point that make the deficit be over 3 percent, until a maximum of 0.5 percent of the GNP.

reformation of the national governments' actuation in their economies. Otherwise, we cannot understand the lack of attention to the real convergence during the whole union process (employment, investments, GNP per capita, or production), real preconditions for the social welfare, the obviously restrictive nature of public policies applied and the lack of Community competence in those spheres that, by legal or economic impositions, are not considered by national governments.