On January 1, 1999, the European Monetary Union (EMU) will be inaugurated. Probably two-thirds of the fifteen members of the European Union (EU) will be included in the EMU’s initial membership. Although the Maastricht Treaty of 1992 laid down exacting budgetary and financial criteria for EMU membership (which few of the prospective members will be able to meet without highly creative accounting), the Treaty also provided ample flexibility for admitting to EMU membership countries judged to be “approaching” the requisite financial criteria “at a satisfactory pace.” The non-included bystanders among the initial EMU membership are likely to be the United Kingdom (which, despite the fact that it is one of the few EU members whose financial status actually meets the Maastricht criteria, will probably opt out initially), as well as Spain, Portugal, and Greece.

At the center of EMU will be the European Central Bank (ECB), modelled after the German Bundesbank and, like that exemplar, charged with primary responsibility for maintaining noninflationary monetary policy and price stability throughout the EU. The ECB will

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be at the helm of the European System of Central Banks (ESCB), which will include the individual central banks of member states. ECB will thus be analogous to the Federal Reserve Board of Governors, while the national central banks will be counterparts of the regional reserve banks in the U.S. Federal Reserve system.

The objectives and possible effects of EMU are numerous, ambitious, and perhaps unrealistic: creation of a strong EU-wide currency, the euro, intended to rival the U.S. dollar as the primary international reserve currency; helping to make the EU an economic powerhouse in the global economy; and leading to formation of a future political and security union for the European community.

All elements in the foregoing scenario are uncertain, but those mentioned in the immediately preceding paragraph are even less likely than those mentioned in the prior ones. Although the EU is one of the world’s largest trading regions, over 80 percent of its trade is within the European region. Whether formation of EMU will bring a wider opening of EU trade and capital markets to non-EU trade and investment is doubtful. Unless and until such opening occurs, the role of the euro as an international reserve currency and of the EU as an economic power will be limited.

*Money and European Union* by Stephen Overturf (St. Martin’s Press, 303 pp., $45) and *The Economics of the European Union and the Economies of Europe* by Larry Neal and Daniel Barbezat (Oxford University Press, 416 pp., $60) provide authoritative, balanced, and detailed descriptions and analysis of the institutional and terminological complexities of the European Union, the European Monetary Union, and the EU’s complex bureaucracy, procedures, and vocabulary. To help clarify these complexities, Neal and Barbezat provide a valuable glossary of several dozen acronyms that abound in discussions of the EU and the prospective EMU. The authors, all economics professors, cover different though partly overlapping material.

Neal-Barbezat is intended as a text for university courses dealing with the broad subject of European economic integration. Tracing the European Union’s history from the Treaty of Rome in 1957 through the Maastricht Treaty of 1992 and the ensuing measures to launch EMU in 1999, the authors show clearly that the drivers have been political no less than economic. Britain’s partly-in, partly-out
stance has reflected its interest in retaining its “special relationship” with the United States and restraining the growth of the Union’s bureaucracy in Brussels. France, on the other hand, is reliant on the bureaucracy’s growing power to enhance French influence in the Union as a counterweight to Germany. While some European countries have “opted out” (Norway, Switzerland, and Iceland) of the Union, one (Turkey) has been “locked out.”

Overturf’s focus is more explicitly on the prospective monetary union, treating the history, process, and institutions of European integration from the standpoint of Europe’s evolving monetary system and its movement toward monetary union. Overturf concludes, as have most other writers on the subject, that the strictly economic effects of EMU are likely to be perverse: its costs will probably exceed its benefits. The principal reason for this conclusion is that greater price stability and reduced transaction costs of trade (i.e., the benefits of EMU) will be more than offset by EMU’s costs: namely, the adverse economic effects of relinquishing the use of interest rate and exchange rate variations to make adjustments periodically required by the labor immobility and wage rigidity of the European economies.

In the final analysis, the case for EMU is fundamentally political. From Europe’s standpoint, or at least the standpoint of key European leaders rather than European publics and electorates, monetary union is believed to be meritorious because it will contribute to European Political Union (EPU). Yet this reasoning may be self-contradictory. Whether EPU lies at the end of the EMU trail will probably depend to a considerable extent on whether EMU has positive or negative economic consequences. If these consequences turn out to be predominately negative, EMU itself may set back, rather than advance, the prospects for Europe’s political union.

Postaudit

The skepticism expressed in this review of the European Union’s prospects remains warranted. Nevertheless, the EU is a functioning reality, although one whose effectiveness is probably less than its advocates had hoped or expected.