

European Monetary Integration

2nd edition

Daniel Gros and U Niels Thygesen



Contents

/

Introduction to the second editionixIntroduction to the first editionxii

Part I A brief history of European monetary integration

1	The beginning: from the European Payments Union to		
	the snake	3	
	1.1 The first step towards convertibility: the European		
	Payments Union	4	
	1.2 The Bretton Woods system in the 1960s: stability		
	and crises	8	
	1.3 An early attempt at monetary union: the Werner Plan	11	
	1.4 The 'snake', 1972-8	15	
	1.5 Lessons from the first 30 years of European monetary		
	integration	23	
2	The making of the European Monetary System	35	
	2.1 The Schmidt-Giscard initiative: political and economic		
	inspirations	35	
	2.2 The Bremen and Brussels European Councils: from a		
	vague idea to concrete decisions	44	
	2.3 A step that was not to be taken: the European Monetary		
	Fund	54	
	Appendix 1: Extract from the conclusions of the Presidency		
	of the European Council of 6 and 7 July 1978 in Bremen		
	and annex	56	
	Appendix 2: Resolution of the European Council of		
	5 December 1978 on the establishment of the European		
	Monetary System (EMS) and related matters	58	

3	The European Monetary System	65
	3.1 Criteria for a chronology	68
	3.2 A turbulent start, 1979–83	73
	3.3 A calmer intermediate phase, March 1983-January 1987	81
	3.4 An EMS without realignments and additional participants,	
	January 1987–September 1992	87
	3.5 The turbulent phase, September 1992–July 1993	95
	3.6 A period of reconsolidation and preparation for EMU	101
	3.7 Summary	102
	Appendix 1: Committee of Governors of the Central Banks	
	of the member states of the European Economic Community	104

.

Part II The European Monetary System and the ecu

4	Analytical issues: a critical appraisal of the EMS,		
	1979–92	111	
	4.1 A zone of monetary stability: exchange-rate stability	112	
	4.2 The internal dimension of monetary stability: the EMS		
	and disinflation	137	
	4.3 The EMS – a shock absorber mechanism?	150	
	4.4 Was the EMS a target zone?	155	
	4.5 Fiscal policy in the EMS	160	
	4.6 Symmetry and asymmetry in the EMS	167	
	4.7 A summary assessment of the EMS	178	
	Appendix 1: A simple model of the credibility		
	(or time-inconsistency) problem	180	
5	Lessons from a failed transition? The speculative		
	attacks of 1992–5	191	
	5.1 Models of speculative attacks	192	
	5.2 Causes of the crises since 1992: speculative attacks		
	or fundamentals?	204	
	5.3 Competitive devaluations: are exchange-rate		
	adjustments useful?	223	
	5.4 Concluding remarks	233	
6	From the ecu to the euro	237	
0	6.1 The ecu: origins, definition and official role	238	
	6.2 The private ecu	243	
	6.3 The ecu versus the basket	243	
	6.4 From the ecu to the euro	253	
	6.5 Conclusions: was the ecu important?	253	
	0.5 Conclusions, was the eeu important?	204	

Part III The economics of monetary union

7	Why monetary union? Costs and benefits of EMU 7.1 What is the meaning of monetary union? Irrevocably	261
	fixed exchange rates versus a common currency,	0.40
	and the alternative	263
	7.2 Costs and benefits of irrevocably fixed exchange rates	265
	7.3 EMU and labour mobility	284
	7.4 Additional benefits from a common currency	289
	7.5 Costs and benefits by country	300
	7.6 Summary evaluation of the economic costs and benefits	
	of monetary union	310
8	The relationship between economic and monetary	
	integration: EMU and national fiscal policy	317
	8.1 What is economic union?	319
	8.2 Does a stable monetary union require limits on	
	fiscal policy?	320
	8.3 Practical problems in setting binding guidelines	333
	8.4 Excessive deficits in the Maastricht Treaty	337
	8.5 Enforcement: the 'Pact for Stability' and growth	341
	8.6 Costs and benefits of fiscal policy 'à la Maastricht'	346
	8.7 Fiscal shock absorbers	360
	8.8 Concluding remarks	362
9	EMU and the global monetary system	369
	9.1 EMU and the weight of the EU in the world economy	370
	9.2 The euro as the new global currency	373
	9.3 The euro and the stability of the international monetary	
	system	381
	9.4 EMU and the global monetary system: an overall	
	assessment	·387
	Part IV Towards monetary union	~
10	Agreeing on EMU: from political intitiatives to the	
	Delors Report and the Maastricht Treaty	395
	10.1 Political initiatives to relaunch EMU,	
	January–June 1988	396
	10.2 The Delors Report	401
	10.3 The political follow-up to the Delors Report,	
	June 1989–October 1990	406
	10.4 Towards Maastricht	407
	10.5 Concluding reflections	410

	Appendix 1: Excerpts from the conclusions of the presidency presented after the meeting of the European Council in	
	Hanover on 27 and 28 June 1988	413
	Appendix 2: Discarded alternatives and complements to the Delors Report	413
11	After Maastricht: concrete steps towards monetary union	422
	11.1 Stages I and II: missed opportunities?11.2 Organizing the transition to stage III: the convergence	423
	criteria	431
	11.3 Variable geometry and the ERM Mark II	439
	11.4 Introducing the euro	446
	11.5 Concluding remarks: a transition botched by half? Appendix 1: Monetary and exchange rate policy co-operation	454
	between the euro area and other EU countries – Report to the	450
	European Council session in Dublin on 13-14 December 1996	458
12	The European System of Central Banks and	
14	price stability	467
	12.1 The European System of Central Banks	468
	12.2 The cost of inflation: price stability as the primary	
	objective	479
	12.3 Economic theory and the optimal monetary policy regime	480
	12.4 Independence and the price stability mandate	485
	12.5 Independence and political accountability: necessary but	
	also conflicting conditions for price stability?	490
	12.6 The implications of variable geometry	497
	12.7 Concluding remarks	498
	Appendix 1: Treaty on European Union	498
	Appendix 2: Protocol on the Statute of the European System	
	of Central Banks and of the European Central Bank	521
	Appendix 3: Protocol on the Statute of the European	500
	Monetary Institute	533
13	Outlook and conclusions	544
10	13.1 EMU and political union: is there a linkage?	545
	13.2 The Maastricht system	548
	13.3 How would Maastricht work under stress?	550
	13.4 The final step: deadlines versus criteria?	554
	13.5 A concrete proposal	557
	13.6 Conclusions	562

,