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# *Is the Europeanization of Economic Policy an Epiphenomenon of Globalization?: the case of the European Monetary Union*

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**Abstract**

Globalization, defined as an increase in the mobility of goods, people and ideas is not essentially a new phenomenon. On the contrary, European integration is a recent and unique economic and political process. Nevertheless, the simultaneity, in the 1980s, of a deepening of the European project, on the one hand, and the beginning of the last step of global capitalism, which starts with the fall of communist regimes, on the other, explains that sometimes Europeanization (defined as a process of building European-wide institutions, discourses and identities), specially in the field of economic policy, is seen as an epiphenomenon of globalization. This paper aims to refute this assumption in an extreme case of Europeanization: the Monetary Union. A contra factual analysis will be applied to compare the adaptation to Europe experienced by two founding Member States of the eurozone, Germany and Spain, with the expected evolution of their former national monetary policies in absence of the European Monetary Union. The conclusion is that the Europeanization of monetary policy has not the same logic as globalization; quite the opposite, it is the outcome of a process designed by a small political elite which come up against tendencies towards greater internationalization.

**Key words**

Europeanization, globalization, Monetary Union, Euro, European Central Bank

## 1. Introduction

Europeanization, from the 1990´s onwards, is one of the main research agendas in European Studies. It aims to analyse direct as well as indirect changes in governance produced by the adaptation to the European integration process.

Radaelli justifies its inclusion in the menu of the research area arguing that:

> The theoretical effort in Europeanization as a research agenda is all about bringing domestic politics back into our understanding of European integration, without assuming that the balance of power between the state and the European institutions is being titled in one direction or another. The question of the balance of power is more important for classic theories of European integration than for Europeanization. Although the final power outcome is not prejudged, ultimately Europeanization provides a theoretical lens on the effects of integration on domestic political structures (Radaelli, 2006: 58).

Europeanization is a complex notion. Adaptation to EU membership has both a vertical and a horizontal dimension. Referring to the second one, Radaelli points that: "the EU may provide the context, the cognitive and normative `frame´, the terms of reference, or opportunities for the socialization of domestic actors, who then produce `exchanges´ of ideas, power, policies and so on" (Radaelli, 2006: 62).

Considering only the vertical dimension of Europeanization, two approaches can be distinguished:

a) the top-down one, which follows the sequence: "`pressure´ from Europe on member states → intervening variables → reactions and change at the domestic level"; and

b) the bottom-up approach, which considers Europeanization as the dependent variable and sets "actors, problems, resources, style and discourses at the domestic level" at the beginning of the explicatory chain (Radaelli, 2006: 60). Thus, "there is nothing necessarily top-down about focusing on domestic adaptation to European regional integration" (Graziano and Vink, 2007: 8).

Furthermore, Europeanization does not necessarily entail convergence or harmonization. On the contrary, empiric evidence often probes the "differential" impact of European integration on the Member States (Héritier *et al*., 2001; Graziano and Vink, 2007; Radaelli, 2006). Proximity or compatibility between EU and Member States political systems explains at least partially national dissimilarities in the adaptation to Europe. "Institutional congruence or `closeness of fit´ is certainly an important element in trying to explain different trajectories of Europeanization" (Hix and Goetz, 2000: 19).

In accordance with its purposes, in this paper "Europeanization" means a process of building common institutions, discourses and identities within the EU. Besides, Monetary Union is considered an extreme case of Europeanization because it entails the launch of a unique European monetary space and a single European currency for those Member States which wished to take part in the process and fulfilled converge criteria (Perrut, 1993).

The Europeanization of monetary policy was developed in three stages. The first one, staring in 1990, was focused on the achieving of the free movement of capital flows. In the second one, which took place from 1994 to 1999, common and precise (although not compulsory) norms were established and exchange rates between national currencies and the single European currency were fixed.

Lastly, the third stage of the European Monetary Union started in January 1999. Half a year before, in May 1998, the European Council decided which Member States granted admission in the Euro zone, regarding price stability, the situation of public finances (annual public deficit and public debt), exchange rates and interest rates in the long run (Hosli, 2005).[1]

In the beginning, 11 countries constituted the single monetary space: Germany, Austria, Belgium, Spain, Finland, France, Ireland, Italy, Luxemburg, the Netherlands and Portugal.[2] Greece gained access to the Euro zone two years later, in 2001. And, four

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[1] Convergence criteria, as established in Article 121 and the "Protocol on the convergence criteria referred to in Article 121 of the Treaty establishing the European Community", were the following ones: 1) *inflation rate*: not more than 1.5% above average of the best 3; 2) *budget deficit*: less than 3% GDP; 3) *public debt*: not more than 60% GNP; 4) *exchange rate*: no devaluation within the ERM for 2 or more years; and 5) *long-term interest rate*: not more than 2% points above average of best 3.

[2] During the negotiation process, Denmark and the United Kingdom obtained clauses of exclusion concerning their participation in the third stage of the Monetary Union.

of the States which joined the EU in 2004 entered also into the single monetary space later: Slovenia, in 2007, Cyprus and Malta, in 2008, and Slovakia, in 2009.[3]

The simultaneity at the end of the 1980s of a significant deepening in the process of European integration, on the one hand, and the entrance into the current stage of global capitalism, after the fall of communist regimes, on the other, explains that the Europeanization of economic policies is frequently associated with the phenomenon of globalization.

The objective of this paper is to refute this false belief in the case of the Monetary Union. Using a contra factual analysis, the “adaptation to Europe” which took place in two Member States of the Euro zone, Germany and Spain, will be compared with the likely evolution of their respective monetary policies within different feasible scenarios others than Europeanization in the present stage of global capitalism.

The conclusion is that the Europeanization of monetary policy has not the same logic as globalization; quite the opposite, it comes up against tendencies towards greater internationalization. Thus, these current processes are more enemies than friends.

The structure of the text will be as follows: firstly, the second epigraph will try to clarify the meaning of the phenomenon of globalization as well as the ordinary consequences of economic regional integration in order to evaluate the relationship between globalization and the Europeanization of economic policies in general and of monetary policy in particular; secondly, the third epigraph will review the adaptation of Germany and Spain to the new European monetary institutions, comparing both current processes with the may be evolution of their traditional monetary policies in absence of the European Monetary Union, examining different would-be scenarios; finally, the paper will end with some concluding remarks.

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[3] There are also countries outside the European Union which use the Euro, such as Monaco, San Marino or the Vatican (due to agreements signed with France, in the first case, and Italy, in the other two); the same happens in Montenegro and the territory of Kosovo (where before the launch of the European single currency the Deutsche Mark was employed). The 11 Member States which do not participate in the Monetary Union hitherto are: Bulgaria, Denmark, Estonia, Hungary, Latvia, Lithuania, Poland, the United Kingdom, the Check Republic, Romania and Sweden. Depending on the evolution of their economic indicators, Lithuania, Latvia, Estonia, Poland, the Check Republic, Hungary, Bulgaria and Romania may adopt the European single currency at some point between 2010 and 2014.

## 2. Globalization versus regional integration

The study of the relationship between globalization and regional integration has to face first of all the problem of the lack of a clear definition of the phenomenon of globalization. Until now all attempts to conceptualise globalization were disappointing. They only proposed unfocused and superfluous definitions (Scholte, 2008), which are no more than vague declarations on internationalization. Most of these definitions assume that the tendency towards widening the scope of all kind of social relationships can be explained by the increasing liberalization of markets.

The vagueness of this idea of globalization supports the thesis that there is no substantial element in the contemporary phenomenon of globalization which was not present at other historical moments (Hirst y Thompson, 1996).

In fact, globalization, defined as economic, social and cultural integration, is moving forwards from the naissance of trade (Hayek, 1988; Ravier, 2007). The diffusion and constant growth of commercial practices is no more than a process by which more people and territories run off traditional practices of exchange and step by step involve themselves in broader markets which also little by little become more integrated.

The adoption of a quasi universal currency of metallic base (made from gold, argent or cooper) contributed enormously to economic integration, fixing an exchanging standard on a grand scale which favoured a growingly division of work at global level (Groseclose, 1976). It can not be forgotten neither that currency was internationalized de facto during most of the time in recent history nor migrations of people and capitals were for centuries submitted to less restrictions than nowadays.

Historically, the improvement of communications and technological developments, on the one hand, and wars and conquests, on the other, made the tendency towards greater internationalization easier too.[4] Undoubtedly, last advances in new technologies and the extension of access to Internet grew the perception more or less generalized that current globalization is a new trend. Nevertheless, it is not possible to affirm using objective data that the impact of new technologies of information and communications is being qualitative superior to, for instance, that of the diffusion of telegraph, which permitted for the first time in history to connect in real time all territories (and markets) of the world (Headrick, 1981).

The opened debate on if a more globalized moment did exist or not in the past (Bordo, Eichengreen y Kim, 1998; Hochschild, 2006), considering compared indicators of globalization or this own nature in historic perspective, is a polemic without a possible indisputable conclusion, simply because the perception of globalization has a subjective nature and its impact on the actors who participate in the process in each historic stage can not be objectively measured in such a way that a valid comparison can be done.[5]

Hence, although in history the tendency towards globalization presents ups and downs, with stages of stagnation or indeed backward ones, such as the fall of the Roman Empire or more recently the First World War, these days globalization is not a substantially new phenomenon (Bairoch, 1996).[6]

Taking only last decades into account, it is possible to say, with authors as Williamson (Williamson, 1996) or James (James, 2001) that differences between current globalization and the same phenomenon at the beginning of the 20th century are not so many as it could be stated at a first glance. In the years which followed the end of Second World War took place different changes which, firstly, reinforced economic and financial global integration (Eichengreen, 1996), due to technical progresses and the gradual abolition of controls and regulations that ruled international economic relations, and, secondly, made globalization more difficult or costly, as for instance, the complete abolition in 1971 of the reference to gold in the determination of the value of national currencies or the apparition after the treaties of Bretton Woods of regulative instances of global scope. Therefore, the value of each currency would depend on the internal situation of each country, enhancing the elements of volatility previously present in the financial markets; in addition, the regulation of commercial and financial transactions

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[4] Susan Strange (Strange, 1996) is one of the few academics who confer an important weight to the development of new technologies as an accelerating factor of globalization. See also Cerny, 1994.

[5] On different ideologies of globalization, see Rupert, 2000; Schaeffer, 2003.

[6] The influence of globalization in domestic politics and their impact on welfare systems could have been overestimated too, so that it should be nuanced. See Schulze and Ursprung, 1999; Brinkman and Brinkman, 2008; Mosley, 2000, 2005; Weiss, 1988.

would become dependent on institutions, such as the International Monetary Fund, the World Bank and the Trade World Organization which take their decisions after political negotiations, making them at the mercy of political circumstances (Broz and Frieden, 2001; Steinberg, 2008; Gilpin, 1987; 2000). Indeed, the insecurity created by its effective adaptation to the particular norms of each country makes these instances of regulation less consistent, introducing therefore an element of uncertainty in global economic relationships.

The building of new institutions of economic and political integration in certain geographic areas is one of the most noticeable innovations among the post Second World War above mentioned ones (Higgott, 1998). All the attempts of regional integration put in motion in last decades (MERCOSUR, ASEAN, European Union, etc.) were linked from the academy to the notion of globalization (Milner, 1998).

If globalization is an old phenomenon with own dynamics, the point to be analysed in order to refute the association between regionalization and globalization is the scope in which experiences of regional integration, instead of contributing to widen the tendency towards globalization, are hindering it (Wei and Frankel, 1996).[7]

Regional integration *per se* is no more than a process which, in case of being successful, produces a strengthening of the links between citizens of a certain number of countries which belong to a unique geographic and cultural space (although internal differences could be greater than differences between parts of the region and other external territories).[8] The point is that politics adopted within the regional space can obstruct further the relationships between theirs inhabitants and those of the rest of the World (Bhagwati, 1993). In reality, regional integration can (ands tends to) impose, because of internal political pressures, protectionist limits to the entrance of goods, peoples and financial flows from outer territories; the consequence of this would be a

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[7] These authors conclude that regional blocs can accelerate globalization, dividing the political opposition to the process. But they also recognize that in certain scenarios countries may be trapped in regional blocs without any volonty to move towards global liberalization. Colin Hay (Hay, 2000) argues that many of the disruptors of modern economic systems are cases for regionalization and not for globalization.

[8] For instance, it is evident that social and economic similarities between the nationals of Bulgaria and those of the United Kingdom are fewer that the similarities which do exist between the British and the nationals of the United States, in spite of the fact that Bulgaria and the United Kingdom are both Member States of the EU and the United States of America do not belong to the same geographic area.

diminution of global economic exchanges, despite their increase within the regional space.

In a nutshell, the effects of regional integration experiences in globalization do not depend on regional integration as such but on the content conferred to it, that is, on the kind of internal and external policies adopted by the institutions of each particular region. And, as von Mises (Mises, 1962) points out, the protectionist temptation is higher in large economic spaces; because, as the costs of protectionist practices are shared between less people, they are much more easily perceived by citizens and rapidly attributed to protectionist measures.[9] In other words, the inhabitants of small political units usually recognize that they can not be economically self-sufficient and their rulers avoid establishing specific regulations on important products or services for the reason that it would make them much more expensive. Hence, it is possible to speak of the paradox of the smaller the political unit the greater the tendency to seek voluntary forms of commercial, monetary or indeed linguistic integration with the effect that the quality of the integration will tend to be major than when it is aimed by political means.

The comparison between Medieval Europe and China at the same historic time offers a very good example (Jones, 1981; Baechler, 1975). Medieval Europe was composed by hundreds of political units while China was unified in a single political space of great extension and demographical weight. Consequences can be observed in historical perspective. China's currency degenerated quickly due to inflation. Since paper currency was established as exchange media and it did not have to compete geographically with other currencies, China was progressively closing towards itself and becoming isolated from the rest of the World. Simultaneously, in Europe a commercial law which ruled trade between people of the region was developed spontaneously and the quality of the currency was maintained extraordinarily high during the period, without declining since the appearance of the nation-states, setting the foundations for future phases of globalization.

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[9] Citizens of small countries such as Luxemburg and the Netherlands would be immediately aware of the negative consequences of a self-sufficient policy, while the effects of a European self-sufficient economy would be much more difficult to detect and attribute to a certain economic policy. Nevertheless, the existence of small protectionist countries and big free traders and globalized spaces is possible, at least in theory, because this fact only depends on political decisions which are not always adopted following criteria of economic rationality.

The case of monetary integration deserves further attention. During the period of running of the current gold and in less grade during the century of operation of the golden standard, in all their modalities, the grade of monetary integration was much higher than the actual one, because the monetary base was composed by metals, essentially gold but also argent, which had an universal recognition, and diverse global currencies only differed in the amount of metal from which they were fabricated. There were no variations between currencies and their value adjusted reciprocally straight away in accordance with the quantity of gold or argent contained by each one (Jordan, 2001).

Later, the coming out of fiat money firstly and money without any kind of metal support secondly made the exchange of currencies coined in different countries more uncertain. From that moment onwards the higher exchange risk and the lesser visibility and transparency of exchange operations increased the costs of international transactions (Hülsmann, 2008).

Privileges of segnorage, paid by the users of low level currencies to the countries which issue international standard currencies, make even more problematic the former scenario (Cohen, 1998). Basically the United States, and in less degree the European Union and Japan too, produce fiat money which is also used in other countries. As a consequence, the United States, the European Union and Japan have the privilege of being able to pay their international debts in their own currencies as well as to release new currency without making completely visible inflationary costs internally; the explanation is that a great deal of the new money is used for commercial and financial exchanges between other countries and so it does not go back to the issuer country to demand goods or services (Kapstein, 1994).

Thus, the appearance of fiat money is related with the degree of global monetary integration. In fact, one of the declared objectives of the process of Europeanization of monetary policy is to eliminate the costs of transaction which made trade relations between European countries more difficult and expensive. In practice, the single European currency has been successful in achieving this particular aim, but the euro also produced new tensions which will make global economic integration more difficult in the medium run (De Grauwe, 2006a).

The critical problem is the impossibility of defining an optimum economic area[10] of reference for any political unit.[11] Hayek, for instance in his book on monetary nationalism (Hayek, 1937), suggests the idea that the only rational space from an economic point of view is the global economy or a political unit completely closed. As the second option is not available in practice nowadays, economic integration could only be achieved at a global level; hence, all attempts to create national or regional administrated currencies would only impose barriers to the process of economic international integration; indeed, these obstacles will be directly proportional to the scope of national or regional currencies.

The logic of currency is exactly the same as the logic of other social or cultural institutions as for instance language. If the number of speakers of a language is reduced they will try to learn an international language in order to be able to accede to more trade and cultural goods. On the contrary, users of languages with a relative high number of users but not universalized tend to be more protective with their own language and not only unwilling to study a more internationalized language but also contrary to the expansion of international languages in general.[12]

The situation with currency is very similar. If the number of users of a national currency is small they tend to agree much more frequently with the idea of establishing a coordinating supranational currency; on the contrary, the bigger the scope of a currency the greater the potentially resistances from the public institutions responsible for its control to renounce to it.[13]

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[10] This concept was formulated by Robert Mundell. In order to be ruled by a single central bank, countries need to satisfy various requirements, such as similar inflation rates and economic policies concerning deficit as well as other major economic indicators. See Mundell, 1961.

[11] It does not seem that a citizen of Luxemburg or Liechstein, for instance, has not access to any good or service which is at the disposal of an inhabitant of India or Chine. Seize does not matter as far as economic performance is concerned, so that it is not possible to define an ideal territorial or demographic dimension from an economic point of view.

[12] It would be, for instance, the case of French in contrast to English. French is a cultural language with a relative high number of speakers, but it is not an international language as it is English. A French speaker is able to satisfy a more than reasonable number of economic, social and cultural necessities with his own language, and for this reason he would not appreciate easily the benefits of learning a second more international language. On the contrary, the speaker of for instance Danish would like to learn another language more often, and he would probably opt for an international language such as English. Therefore, paradoxically, Danish people tend to be more globalized than French ones.

[13] An analysis of the importance of hegemony in international relations is developed by authors like Keohane (Keohane, 1984).

It can be argued that, because of the political hegemony obtained by the United States after their victory in the Second World War, dollar played the role of exclusive currency of global reference for several decades. But, as it was demonstrated in history, the monopoly of dollar, rooted in political factors and not in market decisions, was used by its administrators to gain internal power (paying ambitious projects of social welfare) as well as external power (financing the United States participation in wars oriented to keep its area of influence). These internal and external political enterprises were paid by monetary manipulations, which made impossible in the beginning of the 1970s the fulfilment of the compromise of redemption in golden of all bills of dollar presented. This situation obliged to abandon definitely till now the last remains of the relationship between gold and the monetary systems (Rothbard, 1990).

Since them, the value of the dollar as well as the rest of the currencies of the world depends on political decisions. Consequently, as in all cases of public management of a good or service (that is in all fields where neither firms nor prices of market exist); there is no place for economic rationality. Money is now shaped as one of the main socialised fields of the economies of most countries in the world; this implies that prices as well as the quantity of money supplied are defined by decisions of political institutions (despite these institutions are frequently qualified as "independent"), which lack by definition the information necessary for taking such decisions rationally. Prices and quantities of money fixed by these institutions are different from those that would be determined by markets (if not these institutions would not have any reason to exist); consequently, they distort monetary and capital structures, sometimes crowding the economy with cheap credit, others restricting it artificially; sometimes causing deflations, others inflations and consequently economic crisis (Mises, 1953; Huerta de Soto, 1998).

In sum, the problem of global monetary coordination can not be solved with one or several politically administrated currencies; on the contrary, decisions in this field should be taken by market institutions, which should be the only responsible for determining the number and the qualities of monetary standards.

The Euro, as all currency designed by political institutions, is an administrated currency, whose quantity, quality and prices are subject to political decisions (and not determined exclusively by the preferences of economic actors expressed towards financial markets).

The Euro lacks an intrinsic economic rationality first of all because it is a currency with an essentially geographic root, that is, it is the currency of a region of the World, Europe, and countries belonging to this region, for the sole reason of being neighbour countries, are not necessarily the most appropriate ones to participate in a process of monetary integration. The conditions established by Mundell (to mention the most well-known among the specialists in the theory of optimum economic areas) do not have to be applied to geographically contiguous political units. For instance, a currency shared exclusively by Japan, Germany and the United States would be equal or probably more economically rational from Mundell's point of view than a currency as the Euro which is shared by countries whose economic indicators differ from each other extremely such as Portugal or Luxemburg.[14]

Indeed, from an exclusively economic point of view, it would be more rational to use different currencies within the same State when regions exceed the threshold of difference between them established by the advocates of optimum currency areas, with the result that regions of different countries would share the same currency.[15]

As it used to be only a currency for State, although there are in many cases significant interterritorial disparities, it is obvious that economic rationality is not the most important one at times of defining the extension of a currency; on the contrary, the political logic, the logic of sovereignty (Cohen, 1998, 2004; Van Dun, 1998; Baldwin, 1971), is normally the most important one.

In fact, the only economic rational currencies would be those that would emerge from the free and spontaneous agreement between interacting tiers, like it was the case at their outset (Menger, 1996) and with international good-currencies, as gold or argent.

Notwithstanding, the European single currency was elaborated following at a great extent the theoretical dictates of the classical new economy, that is, the design of the Euro was based on the ideal principles of independence of the central bank,

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[14] Differences in unemployment taxes oscillate between the 3.3% of the Netherlands and de 18% of Spain. It would justify, following Mundell, different monetary policies and so that in reality these two countries should not remain in the same optimum monetary area, as it is the case.

credibility of monetary policies and management according to rules instead of discretional principles (De Haan, Eijffinger and Waller, 2005; Padoa-Schioppa, 2004; Savage, 2005; Dyson, Feathersome and Michalopoulos, 1998; Frieden and Jones, 1998).

What happens is that in practice these theoretical principles are replaced by political decisions which depend on political interests and preferences, according to the nature of a monetary system as it is the European which was created mainly with the purpose of achieving political objectives.

The independence of public institutions, as Antony de Jasay writes (Jasay, 1998), is always wishful thinking, because the designation of administrators as well as the implementation of their decisions is subject to those political powers from which the supposed independence of these institutions is declared.

Clearly, this is the case of the European Central Bank, whose director has to deserve the trust of the heads of state of the countries of the Euro zone (Verdier and Breen, 2001). Moreover monetary policy is Europeanized only as far as formulation is concerned; but national executives can fail to fulfil the recommendations of the Central Bank without any cost, because they themselves are in charge of executing the eventual sanctions and guidelines of the European Central Bank.

A good example of the enormous capacity of influence on the decisions of the supposedly independent Central Bank that continues to have national governments within the single monetary space was the 2008 economic crisis. Simply, Member State executives forced the Bank to substitute its rigid monetary policy for a more relaxed one.

It is evident that the capacity of manoeuvre of the European Central Bank is limited to make the most of possible differences between the principal countries of the Euro zone, but when their national governments reach an agreement on monetary policy the independence of the Central Bank is seriously threatened.

The same happens with the management based on rules. Bad economic indicators in 2008 were enough for stopping thinking about all rules of procedure and

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[15] For instance East and West Germany or different regions in Italy and Spain.

substituting them rapidly by an absolutely discretional monetary management, which instantaneously eliminated all trace of credibility of the European Central Bank.

The fact that the Euro is a currency without initial economic rationality explains most of its distortions from its origins (Salin, 1982). Disruptions which affected policy also had an effect on its credibility as a currency and in the same way disruptions suffered by the Euro as a currency produced political effects on the different countries of the Euro zone (Gabel, 2001).

Moving to the second epigraph, a contra factual analysis will be developed on how an economic integration process could have taken place in the European Union space without monetary integration and how the lack of Europeanization in monetary affairs could have had a more friendly effect on economic globalization.

## 3. Germany and Spain: two opposing "trajectories of Europeanization" within the Euro zone. What would happen without the European Monetary Union?

A contra factual analysis (Hülsmann, 2003) aims to evaluate at what extent a certain decision taken by public institutions produces an impact on society. As it happens with any social fact, composed of a lot of human behaviours which jointly frame results, it is not easy to isolate precisely the effects of any single measure. Indeed, public actions sometimes have synergic results, but others generate colliding effects which can be mutually annulated.

For instance, economic theory says that an increase in the quantity of money issued by public institutions tends to raise prices. Nevertheless, there are historic examples, as the United States in the 1920s, of a great growth in the monetary mass which did not have an impact in prices indexes. It could be concluded from this historic example that raises in monetary mass are not the cause of inflations generally speaking; but this generalization would not be valid. The explanation of the (excepcional) non attendance on that occasion of the normal effect of an increase in the monetary mass (a raise in prices) was the parallel improvement of productivity in many economic sectors. As prices of these goods decreased substantially, ordinary consequences of any enlargement in the amount of money were compensated when calculating price indexes

(Rothbard, 2005). Apart from this compensating effect, much more elements can influence final results measured by prices indexes.

In a nutshell, it is not possible to measure isolately the influence of a single factor in any political outcome, that is, the magnitude of any change caused by a certain public decision and the one explained by other intervening factors.

Thus, it is difficult to attribute changes in the European monetary system occurred from the creation of the Euro and the European Central Bank to these European institutions; because they could be also produced by other factors such as globalization or improvements in productivity caused by the steps given simultaneously in economic integration at European or global level.[16]

From the 1950s onwards, without European integration in monetary affairs, a noteworthy increase in economic integration (measured in exchanges of goods, services and workforce, as well as the progressive elimination of institutional barriers to these exchanges) had being taken place within the space of the European Union (Story and Waler, 1997). This process had been advancing with the hegemony of one of the more stable and solid currencies of the region, the Deutsche Mark, to which the other European currencies adapted spontaneously.

This model in its different variants (monetary snake, ECU) was not able to avoid completely monetary crisis, but it produced at least a high degree of economic integration within the region (De Grauwe, 1994; 2006b). It was a case of benchmarking applied to the monetary system in which the most stable currency was chosen naturally for steering, acting *de facto* as a standard of reference for the rest. Thus, it can be considered as an example of tacit and not forced adaptation between currencies.

In this epigraph, different scenarios in which European economic integration could be achieved without the Europeanization of monetary policy will be examined. The contra factual analysis proposed tries to develop a theoretical study of the consequences of the Europeanization of monetary affairs without making use of quantitative data, because, as it has been already said, it is not possible to find out for

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[16] About the scarce influence of Monetary Union in trade, see Persson, 2001.

sure at what extent changes in economic indexes are due to the introduction of common monetary institutions and not to other factors.

Changes in policy occurred in two founding members of the Euro zone will be used to illustrate the reasoning. The two cases will be Germany and Spain, because before monetary integration they were countries with relative different monetary policies as far as its laxity is concerned: Germany represented a strict model of monetary policy while Spain was distinguished for having a much more relaxed one.

As it has been already noted in this paper, Europe followed a slow path towards integration in monetary affairs applying a model of *benchmarking* with the result that the country with a stricter economic policy and central bank was becoming step by step the milestones for the rest of the States of the region. Some currencies as the Belgium franc or the Danish crown were already *de facto* satellite currencies of the Deutsche Mark; and these countries presented parameters of monetary policy identical to the German ones, with slow taxes of inflation and deficit, with the consequence that their monetary systems were relatively much more stable (Dyson, 2002). Indeed, the Deutsche Mark acted, because of its stability, as currency of reference to European countries which did not belong to the Union, such as Yugoslavia; in sum, this national currency was undoubtedly placed at the centre of the European monetary system.

The situation of Spain, one of the big member states of the European Union with worse recent memory in terms of deficit, inflation and unemployment, and with a currency, the peseta, which in the years before the entrance into the Euro zone had suffered several forced devaluations due to the weakness of Spanish economic policy, was almost the opposite one (Pérez, 2004).

It is worthy remembering that the Maastricht agreement designed economic and monetary institutions in principle much more influenced by the strict patterns of behaviour of Germany than by those of the laxer economies of South Europe, and it was also administrated according to a Franco German pact. Nevertheless, as the European Central Bank was a supranational institution and not a German one, the final result was that the strict role played by the Bundesbank in the design of German monetary policies was abandoned in part in the single monetary space (Wyplosz, 2006).

In fact, it can be stated that the Europeanization of monetary policy can be studied as a process of redistribution, by which countries with a stricter monetary policy loose part of their former stability in favour of the traditionally less rigorous countries of the Union, which are the real gainers of the creation of supranational monetary institutions, because they gain a more solid frame of monetary policy (De Grauwe, 1993).

In the Spanish case, Maastricht criteria and the integration in the single monetary space acted as an element of economic discipline which forced its national governments to adopt more virtuous economic practices. So the Spanish economy achieved more stability in its exchange rates and a decrease in interest rates comparing to previous years.

In contrast, the always exemplary German economic practices were diluted by the effect of the "adaptation to Europe", loosing a great deal of their former attractive. As it is not useful to keep a rigorous economic praxis if the rest of the members of the Euro zone do not act in the same way, and you are economically linked to the decisions adopted by all of them, it is not worthy maintaining the previous levels of effort to any further extent.

Moreover, once the moment at which it was necessary to fulfil convergence criteria to be admitted in the Euro zone passed, the perception of certain lack of responsibility of the Union in its economic decisions, real or not, has brought member states and specially the two that we are using for illustrating the analysis, to behaviours of moral risk.

Once member states of the single monetary space, and above all the big ones, appreciated that the non-fulfilment of strict practices does not entail relevant consequences, they adopted a much more relaxed attitude. Some of them, as Spain, trusted in the solvency of supranational institutions as a mean to muffle eventual turbulences, others, as Germany, despite being aware of the consequences of a bad monetary policy, thought, first of all, that its influence was anyway partial, and, secondly, that maintaining a virtuous behaviour made no sense since it would be fruitless if the rest of the members of the Euro zone did not act equally.[17]

The situation opened at the beginning of the today economic crisis in September 2008 was definitely paradigmatic. A political pressure without any precedent against the European monetary institutions commenced, forcing a complete modification of the common monetary policy, which stopped to be so strict and commenced to be more relaxed as far as interest rates and the quantity of money in circulation were concerned, and evaporating by the way the myth of the independence of the Central Bank.

Moreover, the most important countries of the Euro zone started to design and implement in a hasty and uncoordinated manner anti crisis measures of national nature, indeed, promptly imitated by other national governments in a kind of perverse competency, ruining in a couple of weeks all the former rhetoric proclamations about the fulfilment of the criteria above which the Monetary Union had been founded.

Moving rapidly to the contra factual analysis, what alternative scenarios could be functioning in absence of the Europeanization of monetary policy nowadays, in the same stage of global capitalism? Starting by the most feasible one, the following four alternative situations deserve to be considered.

First of all, the most probable scenario in the space of the European Union without a common monetary policy would be the continuity of the previous situation initiated with the creation of the Economic Community: the coexistence of several currencies administrated by different states with a currency of global reference, the dollar, and other of regional reference, the Deutsche Mark, which had already, step by step and spontaneously, been replacing the dollar in many of its functions in the region.

The traditional stability of the monetary policy of the Bundesbank would serve as a referent to the rest of the national currencies of a day by day more integrated region as far as trade is concerned, keeping potential advantages of a strict monetary policy for the leader and also maintaining the costs of moving apart from this virtuous practices. The Mark would operate within a scene of international competence with other

[17] The only effective threat for Germany would be the monetary secession from the Euro, but as it would have enormous political costs (the end of the European political union project as a whole), this option is not available.

currencies which will serve as a referent for the German one and also for maintaining its discipline.

The rest of national European Union currencies, as the Spanish one, would little by little adopt the *best practices* of the Deutsche Mark for fear of lowering one selves in the ratings of reliability, with the costs of financing public debt and the political problems brought by the lack of convergence both in internal and external national policies. These good practices would include a moderate expansion of the monetary supply, a stable policy of types, and a rigorous control of inflation and public deficit.

It is of worthy remembering that Spanish (and French) bad practices of the 1980s (the opposed to the former ones) were hardly punished by markets and they obliged Spain to forget certain financial holinesses and go back to monetarist orthodoxy for fear of condemning the peseta to irrelevance or the expulsion of the European monetary concert.

In sum, the most probable scenario in the space of the European Union in absence of Europeanization of monetary policy would be an European economic system with a dominant currency and a group of other currencies obliged to imitate the good practices of the best so that in the medium run exchange uncertainties within the region would disappear and a *de facto* convergence of interest rates would become visible, that is, the same economic objectives which supposedly justify from an economic point of view the creation of the Euro, without the costs associated to its artificial design.

Countries as Spain could have developed a currency associated to Deutsche Mark, but keeping the responsibility of maintaining its solvency and autonomy in the field of monetary policy, opting for linking it to other currencies or for constituting itself in referent.

It should be emphasized that the main element of integration and economic convergence is not currency[18], but the elimination of barriers to trade of goods, services and capitals, and, once this is achieved, the integration of means of exchange is only a question of time.

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[18] If it did function in this way, the world of the gold standard economy would have been fully integrated, but such integration did not occur before the 19th century, due to the beginning of the abolishment of commercial barriers imposed by mercantilist ideas.

The second scenario in absence of the Europeanization of monetary policy which deserves to be taken into account in this analysis is the (already suggested by well-known economists as the French Pascal Salin) competence between all the national currencies of the Member States of the European Union (Salin, 2008; Vaubel, 1984, 1990). For making this competence possible all currencies would have to be official in all contries. The result would be the extension of the best currencies and the extinction of the worst. It would be an extrapolation of the present situation of currency competition in territories as Andorra in which many currencies function as means of payment or deposit in bank accounts.

Within this second scenario, in case of continuity of the patterns of monetary policy which existed before the adoption of Euro, it would be very probable that the Deutsche Mark would become the new currency of reference in Europe, and maybe other currencies as the pound in the European context and also the dollar and the yen in global markets would also persist.

The existence of several currencies in competence would avoid eventual Mark abuses of its privileged position as European currency of reference. In fact, it is not probable that any administrated currency become a global reference one, because if a government appreciate that its administrated currency is becoming an international reference one it would tend to take advantage of the privileges of seignorage, with the result that it would be more profitable to use other national currencies in competence. Thus, a global administrated currency could only be achieved by force.

In this second scenario, the disappearance of the peseta, supposing that Spanish economic authorities persists in the actual economic policies, could be expected in the short run as money for international transactions and in the medium run as currency of internal use too, because the superior stability of the German Mark would make it preferable for economic calculus, stability of investments and payments in advance.

A third alternative to European integration in monetary affairs would be the Hayek model. This author did make a convincing exercise of contra factual analysis (Hayek, 1978).[19] Within his third and more radical scenario, national currencies would

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[19] Specially in chapter XII, "what kind of currency would choose the public?", Hayek does a contra factual analysis when he describes how economic agents would react to a monetary system of free

compete not only between themselves but also with a number of private currencies issued by private financial institutions. In this model there would be free competence between public and private currencies, without any territorial monopoly, and private financial institutions would produce money based on a real active or an adjusted nest of actives.

Hayek points out that market would prefer currencies issued privately, sustained by real actives, such as gold or other kind of consumable goods, instead of public administrated ones, less stable and reliable, and with a poor inflationist memory.

Within this third scenario, currencies which would have survived in the second one (free competition but only between administrated currencies), such as the Deutsche Mark or the Swiss franc, would have serious difficulties to persist (because people would reasonably prefer good-currencies), unless they would abandon their current form of symbol money and become themselves good-currencies too, that is, turned into private currencies, unable by definition to give additional advantages to their issuers.

Finally, the scenario which probably go after the Hayek's one would be the return to the circulating golden standard (Cobb, 1984), which should not be confused with the pseudo golden standard in attendance with multiple modifications (Rueff, 1963, 1972) since the end of the XIX century until Nixon's abandonment of any reference to gold in 1971, based in currencies supposedly sustained in gold but with systems of fractioned reserve and central banks moneylenders of last instance. On the contrary, in the model of circulating golden, physic gold would be used as a natural means of exchange, in coins or in bars, in certificates or in bills, fully, 100%, guaranteed.

In this fourth scenario, national denomination of money would not have any influence, it would only be an indicator of weight and quality; its value would depend on its metallic content, which convert it in a global means of payment and condemn to irrelevance the most important currencies as the Euro or the dollar indeed.

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competence, taking into account the four uses of money relevant for this purpose, that is, to pay in cash, to establish reserves of future payments, as standard for delayed payments and as countable unit of confidence.

This last alternative is also intrinsically much more stable, because manufacturing metallic money is much more expensive and time-consuming; and, as it is necessary to invest much more richness and time for producing large amounts of money, causing inflations is much more difficult. Moreover, the adulteration of money is much more problematic; it can not be produced without hindering the free competence between currencies or re-establishing the national monopoly of money.

Nevertheless, for political reasons, the success of one of these two last scenarios is on the whole unlikely in the short run. The explanation is very easy: they would entail a noticeable loose of autonomy for governing politicians in an especially level-headed field. It would mean a lost in one of their principal instruments for manoeuvring, the capacity to coin money, with the redistributive benefits associated to it, for instance at times of paying their debts with a document created as far as its quantity as well as its quality is concerned of their own free will (Hoppe, 1989, 2003).

## 4. Concluding remarks

With the entrance of 11 Member States into the third stage of the Monetary Union, in January 1999, the process of European integration reached an especially important milestone. There were not precedents of delegation of competences in favour of a new supranational institution as the European Central Bank concerning an issue such as money, located at the very heart of the classic notion of sovereignty; and, whatsmore, from a group of countries with very high levels of development (Verdun, 2004: 98). In fact, from 2002, the physic Euro circulating across former national frontiers became the best symbol of the success of the idea of the unity of Europe.

Noticeably, despite its traditional rhetoric of economic rationality[20], the logic of the Europeanization of monetary policy is mostly political. Its main objectives were, firstly, to strengthen the identification of citizens with the emerging European political system, in order to ameliorate its input legitimacy, and, as a result, to make further political integration easier in the long run; and, secondly, to increase EU economic and political influence, founding a new international currency of reserve capable of competing with the dollar in the medium run (which is also different from contributing to global economic integration) (McNamara, 2008).[21]

European integration is a relative recent process, which begins after and as a reaction against the disasters of Second World War; on the contrary, globalization is an ancient phenomenon, moving forwards, with ups and downs, from the foundation of trade. And, while the tendency towards greater internationalization is spontaneous, the European project is a rational construction of politicians (Laughland, 1997).

From an economic point of view, the case of the European Monetary Union is certainly dissapointing. The creation of a common monetary space and a single currency neither contributed to economic globalisation (Schmidt, 2001) nor deepened European economic integration[22] (a process which has few relations with currency and much more with commercial openness) nor improved the economic role of the countries of the Euro zone in the global economy.[23] Indeed, the peculiar political origin of the Euro affects negatively the credibility of the Monetary Union as far as the EU has not a unified voice in external economic policy (McNamara and Meunier, 2002). And, in reality, the dollar remains hithertho (and it will probably continue to be) the principal currency of the World.[24]

In fact, the "adaptation to Europe" in monetary affairs can be interpreted in economic terms as a zero-sum game or a process of political redistribution. "Trajectories of Europeanization" of the States of the Euro zone with a traditional less

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[20] For learning more on political reasons present in the bargaining on the creation of the European single currency, see Connolly, 1995.

[21] Chinn and Frankel (Chinn and Frankel, 2008) made a counterfactual analysis too predicting a better performance for Euro that the one developed in practice.

[22] Perhaps in the elimination of controls in capital markets it could find any improvement (Steinherr, 2002).

[23] For instance the current weight of Euro as international reserve currency (representing over 25% of global reserves) is far away of the one achieved by the sum of the former national currencies of the Member States of the Euro zone in the 1980s (they summed up almost the 40%) (Galali and Woolridge, 2006). The contrary position can be sustained taking into account solely the years of circulation of the physic Euro. This is the case of Louis, who studies only the period between 2002 and 2007 (Louis, 2009). But, obviously, this measure is invalid because precisely the prevision of the end of national European currencies explains that many economic agents had being abandoned them progressively, waiting for the institutionalization of the single one. As far as its commercial dimension is concerned, the situation is very similar. The Euro is used as trade currency only where it replaces the European previous national currencies without gaining territorial presence outwards the EU scope of influence (Bertuch-Samuels and Ramlogan, 2007).

rigorous monetary policy, such as Spain, have been positive, but the impact of the new European monetary institutions was the contrary in the previously strictest members, as Germany.

To put it briefly, Europeanization of monetary policy and globalization, in contrast to what is commonly supposed, are more enemies than friends. In the best of cases monetary integration could only make easier the acceptation of global economic realities within the regional space (Wallace, 2000). In reality the global economic role of Europe is slowly vanishing (Munkhammar, 2005) and European Monetary Union has not been able to revert the trend. And although probably it is not the only explicative factor of nowadays European stagnation[25], it is for sure one of the most important ones.

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[24] EU enlargement could have contributed to the maintenance of the dollar as reserve currency, because enlargements introduced new factors of economic and political instability within the Union. See Cohen, 2007; Smaghi, 2006.

[25] Factors like low mobility (Kurzer, 2001), regional differences (Ansell, Gonzales and O'Dwyer, 2001), taxes and regulations (Munkhammmar, 2005) are important too.

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