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European monetary union

Alice in wonderland or malice in blunderland?

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Abstract

The date is 1 January of the year 2003. Ten years ago the Single European Market was completed in the Europe of the Twelve. As a birthday present, we are witnessing today the inauguration of a Eurofed and the baptism of a single European currency: the franc fort. Guess where we are celebrating. At the ultimately determined seat of the Eurofedâ€™ Frankfurt. After a decade of haggling and bargaining, the suggestion of the German Bundesbank, that Frankfurt is the natural location, has apparently hit home with Germany's European partners.

On the winding and stormy road to this single currency, the EC was confronted with several serious problems: while in the course of the 1990s the EC had managed to reach considerable common ground in the area of economic and monetary policy (largely due to the anchor function of the Deutschmark), in the wake of German unification the Deutschmark softened and lost some of its dominance, and thus endangered monetary stability. In addition, the enlargement of the Community increased economic divergence

and required that 20 national currencies had to be managed and merged. However, the Swedish President of the EC Commission, a crusader for economic and monetary union (EMU), managed to get a compromise accepted, encompassing both rather tight rules on national public spending and borrowing and a handsome amount of money to be given to the weaker member states, to alleviate the inevitable macroeconomic adjustment shock.

But the good old days will not be forgotten. In a prominent place of the Luxembourg Museum of Modern Monetary History stands a glass case containing coins and bills of the former national currencies, as well as some accounting documents which were used for dealing with the predecessor of the franc fort, the European Currency Unit (ECU). Unfortunately, the ECU never really lived up to expectations that it would become a single European currency.

Let us slip back now for a moment to the year 1991 in order to see how the EMU concept was born and how its progenitors fought with each other about what it should become.



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