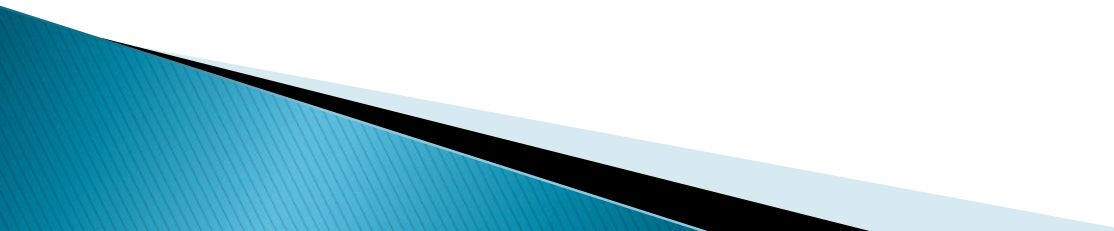


Monetary Law and Monetary Policy


9. Currency union in Europe – background

Dr Marek Porzycki
Chair for Economic Policy


Overview

- ▶ Optimum Currency Area (OCA) as the economic theory behind the EMU
 - ▶ History of the Economic and Monetary Union (EMU)
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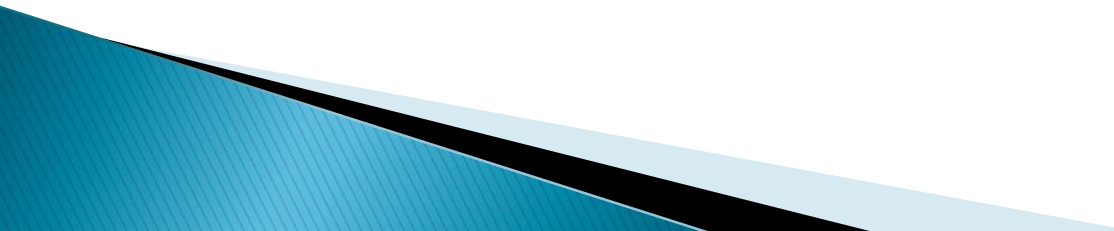
Optimum Currency Area (OCA)

- ▶ Economic background of currency unions
 - ▶ Theory by R. Mundell, 1961, further developed by R. McKinnon and A. Lamfalussy
 - ▶ Definition: an area where it would be economically efficient (=the general level of wealth would rise) to use one single currency, as opposed to several currencies with flexible exchange rates.
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OCA – criteria

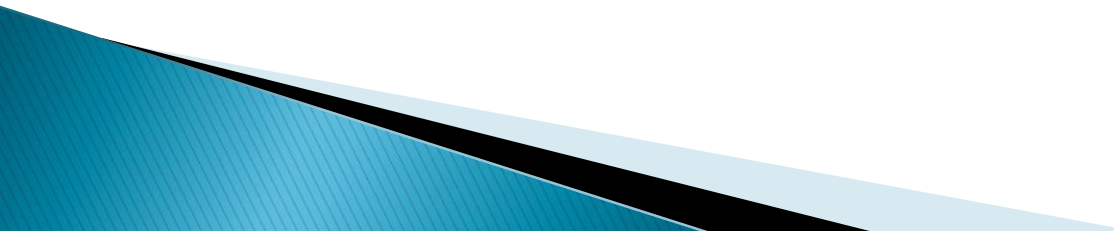
- ▶ Unrestricted labor and capital mobility
 - ▶ Similar level of economic development
 - ▶ Low vulnerability to asymmetric shocks.
 - ▶ Openness to trade and exchange with third countries.
 - ▶ Similar level of inflation and public debt.
 - ▶ High level of financial market integration.
 - ▶ Coordination of fiscal policy, including some sort of fiscal transfer mechanism.
 - ▶ Political and cultural coherence.
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OCA criteria – assessment

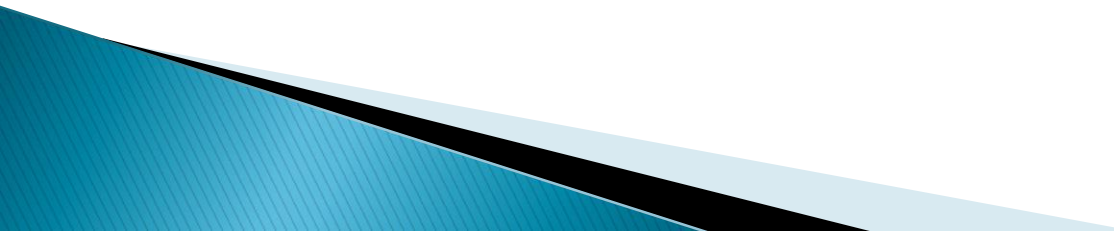
- ▶ All above criteria are open to various interpretations and evaluations and can be fulfilled in varying degrees → it is impossible to specify a precise level required for an OCA to exist.
 - ▶ Result: qualification of a specified area as an OCA can be highly controversial.
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Discussion on the euro area

Open discussion on economic aspects of monetary integration in Europe

- ▶ Can the euro area/the EU be considered an OCA?
 - ▶ Question to be discussed later: should Poland join the euro area?
- 

EMU – prehistory

- ▶ 1962: Marjolin Memorandum, first proposal for a currency union in the EEC
 - ▶ 1971: Werner Report, a plan to realise a currency union by 1980
 - ▶ 1972: currency „snake”, coordination of exchange rate policies of EEC Member States
 - ▶ 1979: creation of the European Monetary System (EMS), introduction of the ECU as an accounting unit
- 

EMU – preparation

- ▶ 1988–89: the Delors Report sets the plan for the establishment of the EMU
- ▶ **1990–1994: Stage One of the EMU**, realisation of the common market and intensified cooperation within monetary policy
- ▶ 1992/1993: Maastricht Treaty introduces legal framework for the EMU
- ▶ **1994–1999: Stage Two of the EMU**
- ▶ 1994: European Monetary Institute (EMI) is established as predecessor to the ECB
- ▶ 1995: name „euro” selected for the single currency, euro adoption and cash changeover plan drafted
- ▶ 1997: Stability and Growth Pact

EMU – implementation

- ▶ May 1998: first Convergence Report, 11 Member States considered fit for euro adoption
- ▶ June 1998: the ECB and the ESCB are established
- ▶ 1.1.1999: Stage Three of the EMU begins, euro introduced as cashless currency. National currencies of eurozone Member States continue to circulate in cash form at irrevocable fixed exchange rates to the euro. Single monetary policy begins.
- ▶ 2000: Greece is assessed as fit for euro adoption and joins the euro area on 1.1.2001
- ▶ 1.1.2002: euro cash changeover in 12 Member States. After a short period of double-circulation, euro banknotes and coins become sole legal tender.
- ▶ Euro adoption by new Member States: Slovenia (2007), Cyprus and Malta (2008), Slovakia (2009), Estonia (2011), Latvia (2014), Lithuania (2015), Croatia (2023).

Reading

- ▶ Hanspeter K. Scheller, *The European Central Bank. History, Role and Functions*, 2nd ed. Frankfurt 2006, Chapter 1.1, pp. 15–28
<http://www.ecb.europa.eu/pub/pdf/other/ecbhistoryrolefunctions2006en.pdf>
- ▶ Ch. Proctor, Mann and Proctor on the Law of Money, Oxford University Press, 8th ed., 2022 :
 - Chapter 25, Historical Background to EMU, pp. 631–649
 - Chapter 24, The Nature and History of Monetary Unions, pp. 615–630

Background:

Robert A. Mundell, *A Theory of Optimum Currency Areas*, The American Economic Review, Vo. 51, No 4 (September 1961),
<http://digamo.free.fr/mundell61.pdf>