Second Edition

The Political Economy of European Monetary Unification

edited by Barry Eichengreen
and Jeffry A. Frieden

The Political Economy
of Global Interdependence

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SECOND EDITION

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The Political Economy of Global Interdependence

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Preface

This book is the outgrowth of a research group on the Political Economy of European Integration convened jointly by the Institute for European Studies at the University of California, Berkeley, and the Weatherhead Center for International Affairs at Harvard University. The group met, typically twice a year, from 1991 until 1999.

The first edition of this book was published in 1994, when the future of monetary unification in Europe was very much in doubt. With Economic and Monetary Union in place, it is appropriate to bring the scholarship in the volume up to date. To this effect, four of the original chapters have been revised substantially to reflect new conditions, and the editors have completely rewritten their introductory essay. Three of the original chapters have been replaced with new chapters (by Gabel, Engel, and De Grauwe et al.) that deal with issues of great relevance to the current European situation. The result is a volume that is almost entirely different from the first edition in content, although its purpose—to bring the latest in scholarship in economics and political science to bear on the topic—remains the same.

Our first debt is to the German government and the Center for Excellence Grant it provided the University of California, which allowed for the initial formation of the research group. At Berkeley, we owe debts of thanks to Gerry Feldman (director of the Institute for European Studies), Mindy Ruzicka, Kira Reoutt, and Gia White. At Harvard, those to whom we are indebted include Jorge Domínguez (director of the Weatherhead Center for International Affairs), Ros deButts, and Matthew Johnson. Above all, we thank the dozens of dedicated research group members from universities throughout the United States and around the world.

Barry Eichengreen
Jeffry A. Frieden

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The Political Economy of European Monetary Unification

An Analytical Introduction

BARRY EICHENGREEN AND JEFFRY A. FRIEDEN

European monetary unification (EMU)—the process that led to the creation of a single European currency (the euro) and a European Central Bank (the ECB)—is both an economic and a political phenomenon. It is economic in that monetary unification has far-reaching consequences for economic policy and performance Europe-wide. Transactions costs have been reduced by the advent of the single currency, stimulating intra-European trade and capital flows. Interest-rate differentials have narrowed now that the separate monetary policies of the founding member states have been replaced by the single policy of the ECB.[1] European finance is being transformed by the explosive growth of euro-denominated bond issues, strategic alliances among national stock exchanges, and a continent-wide wave of bank mergers as the advent of the euro creates for the first time a truly continental financial market.

But European monetary unification is also a political phenomenon. The decision to create the monetary union, the decision of whom to admit, and the decision of whom to appoint to run the ECB are political decisions, taken by political leaders, subject to political constraints, not the social-welfare-maximizing decisions of some mythical social planner. They result from a political process of treaty negotiation, parliamentary ratification, and popular referendum. Individuals and interest groups support or oppose monetary unification—not just in European Union (EU) member states that have not yet joined the euro area, but even now in the founding members—on the basis of how they perceive it as affecting their individual welfare, not the welfare of the nation as a whole, much less the welfare of the entire European Union.[2]

Despite the outpouring of research prompted by EMU, few accounts have systematically analyzed both its political and its economic aspects. That is the goal of this book. The contributors describe both the political and economic dimensions of the process. They demonstrate how political constraints have shaped the design and operation of Europe's monetary union at the same time that the changes in economic structure brought about by monetary integration continue to transform European politics.

A Short History of European Monetary Unification

Monetary unification has always been at the center of the larger process of European integration. Economically, the creation of a single currency was long seen as necessary for forging a truly integrated European market. Politically, monetary unification has been seen as a practical and symbolic step toward the development of a capacity to formulate social and foreign policies at the European level. Both advocates and opponents of further European political integration have long regarded monetary integration as the thin end of the wedge. For all these reasons, the desirability of European monetary unification has been contested since the idea was first mooted.

Serious discussion of monetary unification goes back to the 1960s.[3] In 1969 the Werner Report set forth an ambitious plan for a three-step transition to monetary union to be completed within a decade. In the event, its blueprint was rendered obsolete within weeks by the slow-motion collapse of the Bretton Woods international monetary system. When the Bretton Woods system of par values, which had provided a framework for holding European exchange rates within fluctuation bands of plus or minus 2 percent, finally collapsed in 1971, the European Community's six founding member states had to focus their energies on limiting the volatility of their exchange rates, lest complaints of arbitrary and capricious changes in competitiveness undermine European solidarity. They resolved to hold their currencies within 2.25 percent bands (only slightly wider than those they had operated under Bretton Woods). They were joined in the "snake," as this arrangement was prosaically known, by the United Kingdom, Ireland, and Denmark as those three countries prepared to become members of the European Union.[4]

Soon, however, divergent economic conditions and policies, reflecting the impact of the first oil shock in 1973/74, rendered the snake unworkable. The least committed members suffered repeated balance-of-payments crises, forcing them to alter or abandon their currency bands. By 1975 only Germany, the Benelux countries, and Denmark remained in the snake. The European countries whose policies diverged most from Germany's—the United Kingdom, Ireland, France, and Italy—simply left, and the Danes were able to remain only by virtue of serial devaluations.

Discussions of monetary unification resumed once this turbulence had passed. The outcome was the establishment of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM) in March 1979. All EU member states except the U.K. participated in the ERM, linking their currencies via a multilateral parity grid that again allowed for fluctuations of plus or minus 2.25 percent.[5] Provision was made for realignments, although these were expected to be rare. Financing facilities were provided for countries attempting to stabilize their exchange rates in the face of balance-of-payments shocks, and capital controls were relied upon to limit speculative pressures.

Conventional wisdom at the time was that the EMS was unlikely to succeed. The inflation rates of the participating countries differed widely. High-inflation countries had demonstrated an inability to put in place the measures needed to stabilize their currencies against the deutsche mark. Faith meant believing that the creation of the EMS itself would strengthen the willingness of high-inflation countries to pursue painful policies of austerity.

Initially, skepticism seemed more than justified. In the first four years of the EMS, balance-of-payments pressures were intense. Exchange rates were realigned seven times, and there were few signs of monetary convergence. Then, however, the outlook began to brighten. Rates of price increase in the high-inflation countries began to decline. From April 1983 to January 1987 there were only four realignments, generally smaller than those that had come before. And from January 1987 to September 1992 there were no major realignments within the ERM. Attracted by its improved performance, Spain, Portugal, and the U.K. all joined the mechanism in this period.

This transformation was stimulated by, and stimulated in turn, progress on the larger project of European integration. The Single European Act of 1986 called for the removal of controls on the movement of goods, capital, and persons within the Union. A true common market, in which only countries with well-behaved exchange rates would be permitted to participate, created the prospect of additional rewards for ERM participation. And by mandating the removal of capital controls, the Single European Act pointed up the need for further policy convergence in order for the stability of exchange rates to be maintained.

In this context, and specifically in response to calls by the French and German foreign ministries, the European Council appointed a committee in 1988 headed by European Commission president Jacques Delors to investigate the prospects for further monetary integration. The Delors

Committee recommended that the EU begin moving immediately toward the creation of a single currency. The next step in this process came at Maastricht in the Netherlands in December 1991, when the member states agreed to a sweeping treaty on economic union, giving diplomatic content to the recommendations of the Delors Report.

The Maastricht Treaty, echoing the Delors Report and the Werner Report before it, sketched a transition in three stages. Stage I involved the elimination of Europe's remaining capital controls, the accession of all EU members to the ERM, and hardening of the exchange rate commitment. In Stage II, with the EMS credible and encompassing, member states would reinforce the independence of their national central banks and strive to satisfy a set of "convergence criteria" designed to facilitate the harmonization of their economic policies and to distinguish member states prepared to live with the consequences of a single monetary policy from those lacking the requisite commitment. A European Monetary Institute would be created to lay the groundwork for the establishment of the ECB. Finally, in Stage III, to commence no later than the beginning of 1999, the European Central Bank would begin operations, to be followed in three years by the issuance of euro banknotes and coins.

With a plan in place and all EU members but Greece participating in the ERM, it appeared that the single currency was only a matter of time. But while Europe's political leaders had had their say, the markets and voters were still to be heard from. The backdrop for their intervention was German reunification, underway since 1990. The costs of reunifying the two Germanys gave rise to huge budget deficits for the Federal Republic, which excited fears of inflation in the corridors of the Bundesbank. The response of the latter was to raise interest rates. But high interest rates were uncomfortable for Italy, whose debt and deficits were large. They were uncomfortable for the U.K., where mortgage interest rates were indexed, whose business cycle was not synchronized with that of the rest of Europe, and where the commitment to European integration was less than firm. More generally, chronically high unemployment rates, which by the early 1990s had become a fact of Europe's economic and political life, made it difficult for governments to stomach high, German-style interest rates. The result was pressure on sterling, the lira, and other weak European currencies in the summer of 1992.

In the midst of this gathering storm, public opposition to the Maastricht Treaty materialized. The failure of Danish voters to ratify the treaty in that country's June 1992 referendum and fears that a subsequent referendum in France might also fail raised the possibility that the entire Maastricht process might be derailed. An indefinite postponement of EMU would have rendered it all the more unlikely that high-unemployment countries would be prepared to stay the austerity course. Knowing this, the markets pounced. Despite committing billions of dollars to their battle with currency-market speculators, the Bank of England and Bank of Italy were forced to surrender to the markets. On September 16, 1992, their respective governments withdrew from the ERM and allowed their currencies to depreciate.

Having toppled two of Europe's larger currencies, speculators turned their attention to the smaller ones. Yet more crises and realignments then drove the currencies of Spain, Portugal, and Ireland downward.

Unsettled conditions persisted into 1993. In the summer, with unemployment continuing to rise continent-wide, the pressure intensified for interest rate reductions. None of this deterred the Bundesbank, still preoccupied by inflation, from maintaining a tight monetary stance that prevented other EMS members from reducing their interest rates. The resulting dilemma was most serious in France, where a new government took office amidst the recession. The Bank of France attempted to lead by example, reducing interest rates in the hope that the Bundesbank would follow. In this they were disappointed. Inferring that the French authorities were unprepared to hold the line, currency speculators turned their fire on the franc. Massive intervention by the Bank of France failed to repel them. With pressure continuing to mount, European leaders were forced to acknowledge that the old narrow-band ERM had been rendered unworkable by the removal of capital controls, the liquidity of the markets, and the existence of other political and economic imperatives. But rather than abandoning the mechanism, they adopted the stopgap of widening its currency fluctuation bands from 2.25 to 15 per cent.[6] This removed the one-way bets that speculators had found irresistible (since currencies could now appreciate rather than depreciate if speculators turned out to be wrong) and gave governments more room for maneuver. At the same time, however, it raised questions about the capacity of EU member states to keep their exchange rates stable and, more fundamentally, their willingness to subordinate other social goals to a single monetary policy.

In this, Europe's darkest hour, fears were widespread that the Maastricht process was doomed. With only a weakened exchange rate commitment to bind them, member states might fail to make progress on convergence. And if other EU member states failed to solve their inflation, debt, and deficit problems, Germany would be unwilling to embrace them as partners in a monetary union. Most alarmingly of all, if exchange rates grew more volatile as policies diverged, the Single Market might be placed at risk.

This pessimism turned out to be exaggerated. Economic developments help explain why the convergence of policies and institutions between 1994 and 1998 turned out to be more successful than anticipated. By 1994 the shock of German unification had begun to recede, allowing the Bundesbank to reduce rates. The 1993 recession passed, and with the resumption of economic growth, fiscal consolidation and policy harmonization became easier to undertake.

Politically, the transition to EMU was eased by the strong demonstrations of support that plans for a single currency elicited following the 1992/93 crisis. Even governments that had been forced to devalue reiterated their commitment to the completion of the monetary union, and despite the widening of the currency bands, most were indeed able to keep their currencies close to their central rates. Powerful business groups were vocal in support of EMU, arguing that the 1992/93 devaluations had disrupted progress toward the Single Market and deeper integration. And electoral support for anti-European parties and candidates waned as economic difficulties receded.

Institutionally, interstate negotiations allayed some of the fears of those who remained wary of EMU. A Growth and Stability Pact committed EMU members to avoid large budget deficits, thus extending the commitment to fiscal retrenchment beyond the creation of the single currency. This helped to pacify fiscal conservatives concerned about the profligacy of Southern European (and other) governments. At the same time, member states exhibited some flexibility in interpreting the fiscal criteria, which reassured those who worried that EMU would be too rigid a policy straitjacket. All in all, negotiations signaled that the architects of the monetary union were aware of the political constraints and willing to work within them.

Together, then, favorable economic conditions, political momentum, and institutional flexibility combined to make it possible for most EU member states to complete the fiscal retrenchment necessary to qualify for monetary union. While the letter of the convergence criteria was not always strictly met, European policymakers concluded that the aspirants had satisfied their spirit, and each of the eleven member states wishing to participate was deemed worthy when the decision was taken in 1998. Right on schedule, on January 1, 1999, Europe's monetary union came into being.

The Economics of Monetary Unification

Most analyses of the economics of European monetary unification build on the theory of optimum currency areas, one of the contributions for which Robert Mundell was awarded the Nobel Prize in Economics in 1999. In Mundell's model, the benefits of monetary unification, which take the form of the reduction in transactions costs consequent on replacing distinct national currencies with a single (common) currency, are balanced against the costs of sacrificing monetary and fiscal autonomy. One might think that the savings in transactions costs are considerable. Tourists changing money at airports pay commissions amounting to anywhere from 2 to 5 percent of the cash they exchange. But banks and firms doing larger volumes of business in wholesale markets pay much smaller commissions. And such costs, as a share of GNP, depend on the openness of the economy. European Commission estimates suggest that conversion costs absorbed about 1 percent of national income for the EU's small, low-income countries but as little as one-tenth of 1 percent of national income for the large member states for which international transactions are less important. Overall, currency conversion costs averaged less than one-half of 1 percent of EU national income in the late 1980s. This, it would seem, is a modest return on a process riddled with risks and uncertainties.

It can be argued that the real efficiency advantages come not from the single currency but from the Single Market and that the two initiatives are linked. The Single Market allows European producers to exploit economies of scale and scope. By creating a Europe-wide financial market, it promises to stimulate efficiency-enhancing mergers of banks and securities exchanges. By heightening cross-border competition, it forces European producers to shape up or ship out. By intensifying regulatory competition, it compels European governments to remake their policies in market-friendly ways. This is only one vision of the intentions of architects of the Single Market, to be sure, but it is a compelling one.

And the single currency is indispensable, the argument continues, if Europe is to reap the benefits of the Single Market. It enhances transparency. It makes it that much harder for automobile producers to charge different prices in different countries when a single unit of account allows consumers to more readily compare those prices across countries. It makes it harder for banks steeped in traditional ways to survive in sleepy national backwaters, insofar as the elimination of currency risk encourages savers to seek out higher deposit rates and investors to seek out lower loan rates abroad. It makes it harder for unions to insist on restrictive work rules, insofar as a single currency makes it easier for employers to compare labor costs and the elimination of currency risk facilitates the establishment of branch plants in member states where labor is less expensive and workers are more productive.[7]

At the same time, the efficiency advantages of a single currency must be balanced against the disadvantages of a single monetary policy. Those disadvantages take the form of the sacrifice of policy autonomy that comes with moving from ten or more separate monetary policies to a single level of interest rates across the euro-zone. Recall how in 1992/93, when some European countries feared inflation but others were preoccupied by unemployment, the group as a whole found it hard to agree on a one-size-fits-all monetary policy. Asymmetric disturbances, such as the German reunification shock that was the source of the tension in 1992/93, can still occur under monetary union, but the member states now have no choice but to grin and bear them.[8] A single monetary policy may then mean uncomfortably high inflation for some but uncomfortably high unemployment for others. The question for those seeking to gauge the costs of monetary unification is how frequently such asymmetric disturbances will occur.

The standard way of gauging whether a given correlation of shocks to different national economies is high or low is to compare it with the correlation of the same variables across the various regions within a functioning monetary union, typically the United States.[9] By this measure, while the core members of the European Union (Germany, France, the Benelux countries, and Denmark) are good candidates for monetary union, the same is less true of the EU periphery. The problem with this approach is that the shocks in question are likely to change with the advent of monetary union, rendering history a poor guide to the future. Demand shocks result from erratic changes in demand-management policy, whose formulation will be transformed by EMU. Asymmetric monetary shocks will disappear with the advent of a single monetary policy (although differences in the monetary transmission mechanism will remain). Asymmetric fiscal shocks will be limited by the Growth and Stability Pact. Supply shocks will be transformed as Europe reorganizes itself to capitalize on the single currency and the Single Market.[10]

Other optimum currency area criteria are less likely to be endogenous with respect to the policy regime. Mundell observed that the costs of subjecting several separate economies experiencing asymmetric shocks to a symmetric monetary policy will be less when labor flows freely from depressed to booming regions. His intellectual descendants pointed out that a single monetary policy is similarly less problematic when wages adjust downward in high unemployment regions, obviating the need to relax monetary policy to fight unemployment. So far, there is little sign that the hardening of the EMS constraint and the transition to EMU have transformed these aspects of labor-market performance. The mobility of labor between EU member states remains low, reflecting deeply entrenched cultural and linguistic barriers. Wages remain rigid, reflecting the inheritance of strong unions and generous social programs. Where economic arrangements are embedded in social institutions, as in the case of labor markets, they are slow to change.

The implication for Europe is not a happy one. Insofar as these rigidities are both serious and slow to change, the costs of monetary unification may be considerable. A shock that raises unemployment in one EMU member state but does not elicit a reduction in interest rates by the ECB, because it does not produce comparable unemployment elsewhere in the monetary union, may give rise to a problem of a chronically depressed region. This suggests that the politics of EMU may be more compelling than the economics, or at least that the decision to go ahead needs to be understood on political as well as economic grounds.

The Politics of Monetary Unification

A number of political factors are commonly adduced to help explain the course of European monetary integration. As a point of departure we distinguish interstate bargaining and domestic distribution.

Interstate Bargaining

Even if monetary union does not enhance the welfare of all countries, it still may be in the interest of some, which then cajole, coerce, or bribe others into participating. This approach, generally associated with what political scientists refer to as "intergovernmentalism," interprets observed outcomes as the result of strategic interaction among national governments.[11]

Most of those who utilize this approach have in mind a process in which governments trade off objectives—that is, they have in mind a form of "linkage politics." By linkage is meant the tying together of two (or more) otherwise unconnected issue areas, permitting the parties to an agreement to make concessions on one in return for concessions on the other(s). Thus, one country might "give" monetary union (which it does not favor inherently) in return for "getting" political union (which it does) if the perceived benefits of the latter exceed the costs of the former.[12]

This approach, while appealing, is not unproblematic. For one thing, it is easy to fall into a vague invocation of a link among policy areas without paying careful attention to governments' preferences; for years, journalists and others invoked unspecified "geopolitical" motives to explain bargains among EU members. Any analysis that relies on implicit links must explain how it is we know that these links exist. While many commentators have argued that full participation in the Single Market might be hampered by nonparticipation in the EMS, for example, there is no provision in the Single European Act or any other EU document explicitly establishing this tie.

Moreover, there is scope for the trade-offs on which linkage arguments rely only when different nations place different values on different issues. If all EU members placed similar weight (positive or negative) on

EMU, there would have been little room for trading off concessions in different areas, and no room for linked bargaining that might improve the likelihood of agreement.

Finally, effective interstate bargaining requires that governments be able to make credible threats or promises. Otherwise they will fear that their foreign partners will renege on the commitment or refuse to enter into it in the first place. This is more problematic when issues are linked than when bargaining over each issue occurs in isolation, for not only must commitments on each dimension be credible, but the commitment to link dimensions must be credible as well.

Thus, while interstate bargaining can be important and may involve linkage politics, its use in analysis requires caution and detail. The parties' goals must be specified and analyzed. And given the importance of credibility, particular attention must be paid to how the parties bind themselves to the linkages they create.

Domestic Distributional Issues

Just as countries attracted to EMU may bargain with other member states over participation, interest groups that stand to benefit or lose may play an analogous role domestically. While not benefiting a country as a whole, EMU may still enhance the welfare of particular groups, which prevail on their government to support it. EMU, in this view, is just one example of the special-interest politics common to virtually every economic policy arena.

Serious analysis of the distributional implications of EMU is scarce, although there is some suggestive work (such as Giovannini 1993 and Hefeker 1997). A few observations are probably uncontroversial. Those for whom currency volatility is most costly stand to gain the most from EMU. They include banks and corporations with pan-EU investment or trade interests: for them forgoing national macroeconomic policy is a price worth paying for the elimination of currency risk. For those for whom cross-border transactions are inconsequential, on the other hand, predictable exchange rates are of little value, while national autonomy in the formulation of macroeconomic policies may be extremely important.

Many of the distributional concerns raised by EMU have had to do not so much with the desirability of a single currency per se as with the more immediate problems of adjusting macroeconomic policy to the requisites of a fixed exchange rate. In a high-inflation country, fixing the exchange rate typically leads to real appreciation, which puts pressure on producers of import-competing goods. This can cause a broad constituency to develop reservations about both fixed exchange rates and monetary union. In the context of EMU, because qualifying for participation required meeting the Maastricht fiscal criteria, those who worried about the impact of budget cuts or tax increases on them tended to resist making these sacrifices.

One implication of many distributional arguments is that support for EMU will be shaped by the rise of intra-EU capital mobility and trade. As the EU becomes more financially integrated, the choice between monetary policy autonomy and exchange rate stability becomes increasingly stark. Meanwhile, higher levels of intra-EU trade heighten the importance of exchange rate fluctuations for producers and consumers alike. Meanwhile, increased cross-border investment expands the ranks of those for whom exchange rate fluctuations created problems. Inasmuch as the increased openness of EU economies has involved more economic agents in cross-border economic activity, and these firms and individuals care about reducing exchange rate volatility, the drive toward the free movement of goods and capital might be expected to have strengthened support for EMU.

Problems with the distributional approach are not so much theoretical as practical. There is almost no empirical work that successfully measures the distributional effects of different international monetary regimes. Even if such work did exist, it would tell us little about outcomes, because interests are mediated by political institutions. Since institutions can magnify the political influence of some groups while diminishing that of others, similar interests may be expressed differently when, for example, parliaments are chosen by proportional representation than when members come from single districts in a first-past-the-post system.[13] Thus, any rounded account of EMU must pay close attention to domestic political factors, specifically to the role of interest groups with strong views on EMU and how they operate within national political institutions.

While additional variables can undoubtedly be brought to bear, the two we have described would appear to be central. We need a clear picture of the interests at stake and the institutional setting within which they are situated. We then need to understand how national governments with divergent goals interact at the EU level, including an exploration of the ways in which EMU is linked to other EU policy areas.

The Political Economy of Monetary Unification in Practice

The domestic distributional effects of international monetary policies have been crucial for European monetary developments. Support for EMU has come from international banks and corporations with an interest in reducing currency volatility and deepening the integration of the European market, and from those in high-inflation countries who saw

EMU as a way to achieve German-style monetary conditions. Opposition has come from domestically oriented economic actors and those who expected to bear the brunt of macroeconomic austerity measures. This includes those in high-inflation countries where a fixed exchange rate and subsequent real appreciation undermined domestic producers' international competitiveness.

In France and Italy in the early 1980s, for example, opposition to policies aimed at sustaining the commitment to a fixed exchange rate came from workers in import-competing industries such as steel and transportation equipment. In the early years of the Mitterrand government, France's commitment to the EMS was weakened by the resistance of Communists and left Socialists—whose constituencies were in declining manufacturing sectors hard hit by imports—to the austerity measures needed to bring French inflation down to German levels. A similar dynamic was evident in Italy, where the Communist party and its supporters in the labor movement—again concentrated in import-competing industries like steel—were reluctant to agree to real wage reductions needed to keep the lira in line with its ERM partners.

The 1992/93 EMS crisis provides another example of how domestic political factors affected monetary integration, in this case by impeding the coordination of member states' macroeconomic policies. The British government might have raised interest rates to defend sterling except that the higher rates would have been passed on by mortgage lenders, and many within the ruling Conservative party worried about the objections of property owners. The Italian government might have enacted drastic fiscal measures to solidify its commitment to low inflation, but this was difficult to achieve over the objections of public employees and others who felt threatened by the prospect of cuts. The French government might have raised interest rates to defend the franc but was reluctant to pursue a policy that ran the risk of raising the country's already high unemployment. The German authorities might have loosened monetary policy in order to reduce pressure on their EMS partners but for the Bundesbank's preoccupation with inflation, which was reinforced by strong domestic anti-inflationary constituencies.

Distributional considerations also help to explain the breadth of the euro-zone as it was ultimately established. Once the 1992/93 crisis was history, a new round of domestic debates began over the desirability of monetary union. It was argued that the single currency was indispensable for maintaining domestic political support for the Single Market. This logic went as follows: The more integrated European economies became, the more pronounced were the distributional consequences of intra-EU currency swings.[14] With the completion of the Single Market, countries that depreciated their currencies would be able to flood other member