EMU: Balancing Credibility and Legitimacy in the Policy Mix

Dermot Hodson* and Imelda Maher**

Draft Paper. Please do not cite without consent.

Panel 5D: The Constitutional Dimension of EMU
European Communities Studies Association
Seventh Biennial International Conference
June 1, 2001
Madison, Wisconsin

* South Bank University
** London School of Economics. This paper arises out of research undertaken as part of the Economic and Social Research Council One Europe or Several Programme, award no. L213252034. Earlier versions were presented at the One Europe or Several workshop, Leeds University, March 2000 and to the EC Law Group of the Society of Public Teachers of Law Annual Conference, University College, London September 2000. Thanks to the participants and Brian Ardy, Damian Chalmers, Christos Hadjiemmanuil, Ivo Maes, David Mayes and Colin Scott for their feedback. The usual disclaimer applies.

INTRODUCTION

Economic and Monetary Union (EMU) has three constitutional elements: the allocation of power between the European Union (EU) and member states; institutions to decide and implement monetary policy; and binding principles and institutional requirements for the exercise of remaining state competences (Harden, 1999: 71). While price stability lies at the heart of both monetary and economic policy, the means to achieve that objective differs between those policies. Monetary policy that has as its explicit aim price stability[1] is within the sole competence of the EU and is carried out by an independent European Central Bank (ECB). Economic policy is predicated on the achievement of the objectives articulated in Article 2 including non-inflationary growth but remains within national competence with member states regarding their economic policy as a matter of common concern.[2] This concern is manifested through a mixture of binding rules on fiscal policy and close co-ordination on macroeconomic and structural issues. The uneven allocation of competence is reflected in the complex institutional and legal structures surrounding EMU (Snyder, 1999: 448). The development of these structures lends support to Snyder's claim that EMU is a metaphor for European Union, albeit one that is partial, incomplete and inconsistent (Snyder, 1994). This metaphor is a reminder that EMU occurs within an existing, albeit novel, legal and political order. Thus the evolving institutional and regulatory design of EMU is shaped both by the pre-existing institutions and rules within the EU (Pierson, 1996) and is a metaphor for the growing complexity and diversity of the Union with new forms of governance emerging. This means that some of the themes current in EU constitutional debates more generally are refracted in EMU, for example, the dogged question of the legitimacy which, in the context of EMU, is inextricably linked to the question of credibility.

The paper explores two asymmetries in EMU. First, there is the asymmetry of monetary union with a single independent monetary authority (the European Central Bank), and the absence of a single economic policy, with economic policy instead treated as a matter of common concern and co-ordination. Second, because of the asymmetry in the policy-mix, there is an asymmetry between credibility and legitimacy. In this paper we focus on the tensions inherent in achieving a balance between the credibility (with its audience of the markets) and legitimacy (with its audience of the general public) of the economic and monetary policy mix, where credibility and legitimacy are conceptually distinct but causally related.[3] We argue that there are two inter-related tensions within EMU. First, the credibility of the ECB and its ability to deliver price stability depends not only on its assured independence but also in part on the broader policy-mix. With economic policy firmly within the national realm there is a question mark over the extent to which there can be sufficient incentives or sanctions to ensure the member states deliver policies that are consistent with price stability. In the absence of such consistency the credibility of monetary policy formation will, in the medium term, be undermined. For many commentators this problem entails the need for enhanced co-ordination between monetary and economic policies, although there is little agreement in the literature about the form that such co-ordination should take. At present a common economic policy is neither politically possible nor economically desirable, given existing variations in national economies. Thus a more intergovernmental and piecemeal approach appears to be more viable. The fragmentation of responsibilities within economic policy is problematic as co-ordination is characterised by diffuse responsibility, an opaque institutional structure and a consequent lack of transparency with a large number of supranational and national players operating at different levels and interlinked through a complex web of transnational and supranational initiatives. Such features raise questions as to the legitimacy of the emerging co-ordinating processes. As long as economic policy remains firmly within national competence it retains its legitimacy prima facie at least, through the usual democratic mandate. As economic policy becomes more a creature of the EU (which is expected) the further it will move away from that source of legitimation and an alternative basis for legitimacy will be needed.

Thus we argue that the EMU project generally and developments in the co-ordination of economic policy specifically must take account of the legitimacy as well as the credibility of that co-ordination. If co-ordination moves policy formation away from its national democratic mandate or leads to a Europeanisation of national policy, the opaque and complex nature of the existing institutional structures will draw attention to whether or not policy formation is legitimate. If policy can provide outputs throughout the Union which are seen as beneficial then this will ensure its legitimacy. Such contingent legitimacy would be problematic, however, in the face of an economic disturbance, which affected some states to a much greater degree than others. Functional legitimacy can also be achieved through the related norms of transparency and accountability although such legitimacy in itself is not sufficient and needs to be underpinned by a substantive legitimacy based on either a democratic mandate or shared values (Dyson, 2000: 243). Within the context of supranational co-ordination of economic policy, the presence of such a value at the supranational level is not enough, as it is not grounded in the equivalent manner in the states. The challenge therefore is to develop a framework that ensures co-ordination sufficient to underpin monetary policy and its credibility while taking account of the divergence in national economies in the eurozone and the growing need for the legitimation of any emerging Union wide economic policy.

The paper first discusses monetary policy, outlining the debates and the balance between the independence and accountability of the ECB, before turning to fiscal policy where the main mechanisms and institutions involved in the formation and enforcement of policy are analysed. The loose institutional structures allowing for co-ordination of employment policy are then discussed. The article finally explores the tensions between credibility and legitimacy before concluding that adequate attention must be paid to the legitimacy of policy so as to ensure an effective policy mix with an appropriate balance as between credibility and legitimacy.

MONETARY POLICY — UNIFORM BUT ACCOUNTABLE?

Monetary policy, fiscal policy and employment policy combine three different kinds of co-ordination. Monetary policy is subject to a single institution in the guise of the European Central Bank, fiscal policy is subject to some joint rules, but with no single institution, while both fiscal and employment policy have common fora (Padoa-Schioppa: 1999, 17). Thus although economic and monetary policy are in the same Title VII of the Treaty, the level of integration envisaged for each differs radically.

A pre-condition of membership of EMU is that national central banks have to be independent,[4] hence participation within EMU represents a two-stage shift in responsibility for monetary policy. First, national governments ceded control of monetary policy to their national central banks (although this was already the case in some states, notably Germany), and second, national central banks in turn ceded control to the European System of Central Banks (referred to as the Eurosystem when meeting as those national central banks within EMU and as the European System of Central Banks when all 15 national central banks are involved (Bini Smaghi & Casini, 2000: 380). This ceding of policy-making power is qualified to the extent that decisions relating to monetary policy are taken by the heads of the national central banks and the ECB meeting under the aegis of the Eurosystem (Louis, 1998: 55; Usher, 2000: ch. 10). While it is argued that monetary policy responds to good economic argument supported by evidence whoever makes it (Goodfriend, 1999: 10), it is arguable that the influence of the national central bankers of the larger states may be greater than that of smaller economies (Favero, Freixas, Persson, Wyplosz: 2000: 30). For smaller economies, the credibility of their economic argument is more contingent on their economic performance.

The Treaty sets up a tight institutional structure to give effect to monetary policy with an independent European Central Bank at its centre (Lastra, 1999: 291). The overall characterisation of the Eurosystem is one of independence with one issue being the interaction of the ECB and national central banks. This in turn reflects their characterisation as an epistemic community (Haas, 1992) whose expertise and ideas are central to the acceptance of dominant paradigms and policy aims, notable the sound money, sound finance paradigm (Dyson & Featherstone, 1999: 30). It is generally agreed that an independent central bank is a prerequisite for price stability (de Grauwe, 2000: 154; Hadjiemmanuil: 2000: 153; Jayasuriya, 2001: 113), which is the main tenet of monetary policy under the Treaty. Given that the technical discourse of banking and financial experts dominated debates leading up to EMU (Snyder, 1999: 438), the credibility of the system — as manifest by an independent ECB — was of greater concern than the broader questions of accountability and legitimacy (Verdun and Christiansen, 2000: 167), although the growing anxiety of the German population with EMU was also a key factor in making central bank independence a central component of the EMU architecture. Thus while the independence of the ECB from direct political control is seen as essential, its lack of accountability in a broader sense has been much criticised (Buiter, 1999; Gormley and de Haan, 1996; Hadjiemmanuil, 2000; cf. Issing: 1999; Verdun and Christiansen; de Grauwe, 2000: 160). The ECB is designed not to be directly accountable to the governments of the Euro-zone states. Formal accountability to the European Parliament is weak and in the absence of European parliamentary parties and economic government, there is no meaningful democratic governance (Dyson, 2000: 214).

Indirect accountability is nonetheless important in order to ensure the legitimacy of the Bank, as an agent of government (Majone, 1998:24). The greater the delegation of powers by a government to an agency the greater the need for accountability to that government to ensure the agency has achieved its objectives. The ECB enjoys a higher level of independence than the Federal Reserve of the United States and the German Bundesbank, but is less accountable than either of these two institutions (de Grauwe, 2000: 162). Its independence is underpinned by the fact it has separate legal personality, its members and those of national central banks are immune from political interference[5] and its statute is contained in a Protocol to the Treaty and hence can only be amended by an IGC.[6] It can issue general and specific legislative measures without reference to any other institution[7] and must be consulted and can give an opinion on both EC and national legislative proposals in its field of competence.[8] These formal powers along with the substantive powers of issuance of currency;[9] the conduct foreign exchange operations;[10] the holding and managing of official foreign reserves of the

Euro zone; and the promotion of the smooth operation of the payments system;[11] all ensure that the Eurosystem can carry out its task of ensuring price stability within the Euro zone.

Accountability is vital for legitimising independence within a democratic political structure because independence imposes an obligation to explain to the public, and not just the markets (Dyson, 2000: 238). Accountability has many meanings including democratic accountability; judicial accountability; managerial accountability — in terms of the internal administration of the agency; and a broader public accountability through dissemination of decisions taken and the reasons on which they are based (Hadjiemmanuil, 2000: 158). The first four are forms of formal accountability while the reference to broader public accountability can be seen as informal, an alternative to formal accountability which can be put in place by the institution ensuring greater transparency in its procedures and decision-making (de Grauwe, 2000: 164). On a formal level, the ECB reports annually to the EU institutions and may be heard by committees of the European Parliament.[12] While the ECB President does appear before the EP four times a year (Dyson, 2000: 239), because the statutes of the ECB can only be amended by Treaty revision through an IGC thus requiring the agreement of all the member states, the overview function of the Parliament is much reduced (de Grauwe, 2000: 162). High level contact between Ecofin and the Commission is formalised with the Ecofin President and a Commission representative able to participate but not vote, in meetings of the ECB Governing Council,[13] thus reducing the risk of back room pressure. The extent to which these mechanisms go beyond the superficial depends on the goodwill of the ECB as the Treaty does not for example, specify the content of the ECB reports (Taylor, 2000: 181). The ECB can be either a litigant or defendant before the ECJ and the first case involving it and the Commission is currently pending.[14] It is also subject to review by the Court of Auditors (Amtenbrink, 1999: 359). In practice, the ECB itself has adopted informal accountability mechanisms to improve transparency so it publishes monthly reports and its President holds monthly briefings with the Press after the meeting of the Governing Council. These measures do not go far enough for some (notably Buiter, 1999; cf. Issing, 1999; de Haan & Eijffinger, 2000), as minutes outlining voting and reasons for decisions at the monthly meetings are not published. The argument against providing such information is the collective responsibility of the ECB (Dyson, 2000: 239) and the avoidance of inappropriate national government influence on members of the Council. Arguably, given that members of the governing council are top professionals in their field, their professional integrity is such that they should be willing and able to defend themselves in the light of criticisms for any decisions they take. Similarly, it can be argued that there would be less inappropriate pressure if voting were made public, as the member would have to explain any unusual change of position. At the moment, should a state wish to exercise influence, it would be difficult to establish whether it had done so or not given the opacity of the ECB decision-making procedures.

Accountability is also severely weakened by the vagueness of price stability as well as the way it is so heavily entrenched in the Treaty (Hadjiemmanuil, 2000: 161). While price stability may appear imprecise, the ECB does now publish inflation forecasts (Issing, 1999: 513; de Haan & Eijffinger, 2000: 395) as well as its monetary policy strategy giving reasonably transparent benchmarks against which to measure its performance (Hadjiemmanuil, 2000: 160). The difficulty is that it is the ECB that sets these targets, which it can change at any time. Price stability, despite conventional economic wisdom, cannot always be a purely technical exercise to be conducted by central bankers (Taylor, 2000: 186) and the accountability of the ECB could be improved if these targets were set in consultation with Ecofin which could also, in extreme and clearly identified circumstances override central bank policy (De Haan & Eijffinger, 2000: 398, 403). Such an override mechanism as in the New Zealand model, would overcome an existing difficulty in the current Treaty arrangements and the way they have been interpreted by the ECB, in that there is no capacity even in extreme political or economic circumstances to give due recognition to those general economic policy objectives contained in Article 2 EC (de Grauwe, 2000: 163; Hadjiemmanuil, 2000: 161; Herdegen, 1998).

Price stability in short is not above politics and hence is not purely a technical performance indicator. In fact, the emphasis on technicalities risks hiding political choices in defining price stability and how it is to be set against competing priorities (Dyson, 2000: 217). Fundamentally and paradoxically it is the very vagueness of concept of price stability in the Treaty, which marks it out as more than a technical performance indicator. All Member States could agree to the term as a key tenet of EMU partly7 because it is not unduly specific but at the same time recognising that as the key stone of central bank independence modelled on that of the Bundesbank it was more than a technical exercise but one which acts as a powerful signifier of the ideas underlying EMU.

ECONOMIC POLICY CO-ORDINATION

EU economic policy is predicated on co-ordination of national policies with competence remaining with the member states subject to the formal constraints of the Treaty. Article 4 (EC) states that the activities of the member states and Community include the adoption of an economic policy based on close co-ordination of member states' economic policies, the internal market and on the definition of common objectives conducted in accordance with the principle of an open market economy with free competition. This is elaborated on in Title VII on Economic and Monetary Policy where the member states are called on to regard their economic policies as a matter of common concern; to co-ordinate them in Council[15] and to conduct them with a view to contributing to the achievement of the objectives of the Treaty as defined in Article 2 and in the context of the broad economic policy guidelines of the member states and the Community.[16] V The process is one of negative co-ordination i.e. one of non-interference rather than positive co-ordination involving active co-operation to achieve effectiveness and efficiency (Scharpf, 1994: 38; Dyson, 2001).

These aims are given effect through a combination of voluntary and mandatory measures with the latter potentially culminating in sanctions. Co-ordination is achieved through three inter-related mechanisms that focus almost exclusively on fiscal policy, economic policy not being defined in the Treaty. First, a Commission draft of the Broad Economic Policy Guidelines (BEPG) forms the basis of the Council of Ministers, Ecofin, report to the European Council. On the basis of the Council's conclusions, Ecofin adopts a recommendation setting out the BEPG for the member states and the Community.[17] The guidelines are by definition broad, addressing policies such as price and exchange rate stability; sound public finances; structural reforms and policy mixes to improve employment and growth (Ecofin Council, 1999). The issue is one of co-ordination rather than compliance with an emphasis on orientation of policy rather than defined outcomes although at the Lisbon intergovernmental conference tighter parameters were suggested for the BEPG with timetables being introduced for the achievement of short-, medium- and long term goals (Hodson and Maher, 2000). Second, these guidelines form the basis for multilateral surveillance of national economic policies by the Council (Harden, von Hagen, Brookes: 1999, 155).[18] This surveillance is achieved through notification by the member states of Stability Programmes (or convergence programmes for the "outs") which are "five year plans" updated annually detailing *inter alia* the budgetary position of the member states. This surveillance is designed to provide a continuous flow of information on a state-by-state basis to the Commission and the Council as to the development of the budgetary and economic position of each member state. This helps to ensure that national economic policy is broadly consistent with the guidelines both in terms of objectives and implementation and second, that national policy does not jeopardise the proper functioning of EMU (Harden, 1999: 89).[19]

Inextricably linked with these two objectives is that of pre-empting the development of an excessive government deficit. Where such a deficit arises, then the third mechanism, the Excessive Deficit Procedure,[20] is triggered (Harden, 1999; Italianer, 1999). If a deficit (a budget deficit of not more than 3 per cent of GDP and a public debt ceiling of 60 per cent of

GDP) is persistent, it may culminate in the imposition of a substantial fine calculated as a proportion of GDP. These mechanisms seek to ensure economic co-ordination and national budgetary discipline as a means of protecting the credibility of the ECB (Artis and Winkler 1997). The goal of price stability becomes more difficult to achieve (and hence more difficult to enforce) in the face of fiscal profligacy. By removing the risk of a confrontation between national fiscal authorities and the ECB, budgetary discipline will thus make the latter's objectives more credible (de Grauwe, 1997; Levitt and Lord, 2000: 25). The surveillance process and the excessive deficit procedure are elaborated on by the Stability and Growth Pact (Artis & Buti, 2001). The SGP provides a legal framework of two regulations[21] and a Council resolution[22] within which the goal of fiscal prudence is translated into a commitment by the member states to aim for a budgetary position providing a large enough safety margin so that the 3% of GDP deficit criterion will not be breached in the event of a recession (Artis & Buti, 2001: 566) Where a breach does occur, budgetary in-discipline can be punished. Thus there is the essentially voluntary and co-operative nature of the BEPG, multilateral surveillance which is at the interface of rules and co-ordination (given the power of the Council to issue recommendations to member states in relation to their economic policies), both of which are underwritten by the highly formalised and ultimately coercive excessive deficit procedure.

Responsibility for economic policy is shared at the national, supranational and intergovernmental level and neither the EU nor the principle of subsidiarity exert a primary influence (Boyer, 2000: 56). Policy is formed at the national level albeit under the aegis of the BEPG and in the context of multilateral surveillance. Voting is by qualified majority voting in Ecofin when adopting the BEPG, when making a recommendation to a specific member state under multilateral surveillance, and when finding that a state has an excessive deficit under the EDP (the recalcitrant state not having a vote at that stage). Thus at key junctures under each of the procedures, no state holds a veto. The formal lack of a veto greatly reduces the leverage available to any one member state and also reduces the likelihood of policy bundling or side payments as part of the inter-governmental bargaining process. The fact that formally no state can hold the rest of the Community to ransom combined with the benchmarks set in the BEPG and the sanctions within the EDP, encourage balanced budgets. This is helpful for price stability that in turn is the sole agreed aim of EMU and the one on which the credibility of the system is based. On a policy level, the links between a common monetary policy (which is firmly within the control of the independent ESCB) and fiscal policy provides important incentives to ensure co-ordination especially given the presence of a "no bail–out" clause in the Treaty.[23]

The supranational nature of the process can be seen in the role played by the EU institutions, which represent the Community interest. The Commission plays three key roles. First, it has an important gate-keeper function at a number of key junctures: the BEPG are drawn up or revised on the basis of its recommendation to Ecofin;[24] where national policies are deemed to be inconsistent with the BEPG or risk the proper functioning of EMU, the Council can make recommendations to the state concerned on the basis of recommendations from the Commission.[25] Opinions of Ecofin on national stability and convergence programmes are adopted on the basis of a Commission recommendation[26] and the EDP procedure is only triggered by a recommendation from the Commission. Even if the state does not have a budgetary deficit exceeding the threshold sets under the Treaty, the Commission can trigger the procedure if it thinks that there is a risk of such a deficit, giving it considerable discretion.[27] The Council can request a Commission recommendation and while the Council Resolution says such a request will be granted as a rule, the Treaty places no such obligation on the Commission simply requiring it to examine the request and submit its conclusions without delay (Harden, 1999: 81).[28] The Council resolution, while politically important, formally cannot override the Treaty which is at the top of the EC hierarchy of rules. The fact that the gate-keeping function is triggered by recommendations rather than proposals which are the norm under Article 249(1) of the Treaty, means that they can be amended by a qualified majority in Ecofin rather than unanimity (Harden, 1999: 81). The second key role of the Commission is that it gathers information and, significantly, it is its data that is used as the basis for assessing whether the budget deficit threshold has been breached under the EDP. This circumvents the ambiguity that could arise by deficits being measured by a number of parties according to a variety of methodologies. The Commission's reports also form the basis of the Ecofin's assessment of national stability programmes.[29] Finally, the provision of information and gate-keeping functions of the Commission also give it an agenda-setting role, (Pollack, 1997) a role which is however tempered by the powerful Economic and Financial Committee.

The role of the European Parliament is primarily receipt of information with some decision-making through the co-operation procedure. It is informed of the BEPG by the Council President[30] and receives a report from the Commission and Council Presidents on the results of multilateral surveillance.[31] Where a recommendation has been made to a Member State and this has been published then the Council President can be invited before the Parliament's Economic and Finance Committee.[32] The rules elaborating on Article 99 are adopted under the old co-operation procedure, which gives the Parliament a greater say than mere consultation, but not as much as it would have with co-decision. The co-operation procedure was retained for these provisions under the Treaty of Amsterdam because of an unwillingness to re-open any aspect of EMU (Beaumont and Walker, 1999: 181). The rather limited role of the European Parliament can be seen in the response of Ecofin to the lack of transparency and accountability in economic policy; this was to suggest improved information and dialogue with national parliaments, thus further underlining the national and intergovernmental nature of economic policy (Ecofin, 1999).

While Ecofin is at the centre of co-ordination of member states' economic policies, (European Council, 1997: para. 44) not all states are members of the eurozone. Instead, the "ins" meet as the Euro-group, an informal body designed to improve co-ordination between finance ministers[33]. Informality is re-enforced by the fact the meetings are only attended by the minister and one adviser and meetings are confidential. Dialogue with the ECB is secured by the regular attendance of the ECB President (Lemierre, 1999: 50). Meetings are held immediately prior to those of Ecofin which is the final decision-making body. The "outs" can participate in discussions either by invitation or at their own request save where matters of the single currency are being discussed (Levitt and Lord, 2000: 218). Despite its absence from the Treaty, the Euro-group is an important body which addresses one of the institutional gaps in the Treaty viz. co-ordination between states where all member states have not joined EMU. Its informality while facilitating discussion is problematic in that it meets in secret and there is a risk that, despite the formal legal position, Ecofin will merely rubber stamp the decisions of the Euro-group (Levitt and Lord, 2000: 76). The recent action under the French Presidency to formalise these meetings and preparation for them increases that risk.

One of the most important institutions in the context of co-ordination both between member state economic policies and between EU monetary policy and EU and national economic policy is the Economic and Financial Committee (EFC), the successor of the Monetary Committee (Hanny & Wessels, 1998; Verdun, 2000). This committee has 34 members with two appointed by the Commission, ECB and each Member State,[34] the representatives being senior officials from finance ministries or from national central banks and having outstanding competence in economics and finance. They are appointed as experts, not national representatives. This emphasis on expertise combined with the continuity of membership, the atmosphere of confidence in the committee and the fact members also have the confidence of the relevant national Minister, means that there is sufficient leeway in discussion for consensus to be the modus operandi with areas of disagreement being referred back to ECOFIN for further guidance (Verdun, 2000). These characteristics also give it a level of influence that belies its formal advisory role. It prepares the work of the Council, its reports often being accepted by ECOFIN, and it also provides the forum within which the Commission, ECB and member states can engage in dialogue. It is akin to the Committee of Permanent Representatives (COREPER) in that it prepares the work of the Council but differs in that its members are not appointed as national representatives. It is required to act without prejudice to COREPER. In practice, the fact the EFC Chair attends ECOFIN meetings and the undoubted expertise of its members, means that it dominates monetary and financial policy (Henny & Wessels, 1998: 119) It has several functions specified by the Treaty itself[35] including an important consultative and review function in relation to the economic and financial situation of the EU and the member states as co-ordinated through the Stability Pact. It tempers the extent to which the Commission can shape the agenda, for example, in relation to the EDP if the committee is of the opinion that there is an excessive deficit but the Commission thinks there is not, then the latter must give reasons for its conclusions to the Council, leaving it to arbitrate between the differing opinions but the burden of proof being on the Commission.[36]

Finally, the European Court of Justice has a very limited role to play, reflecting the lack of formal mechanisms in relation to economic policy. The BEPG and multilateral surveillance are not sufficiently 'juridified' to provide a legal basis for judicial review, save where there is a failure to follow procedures, for example, by failing to consult the EFC or the Parliament. The EDP is the most formal mechanism, yet judicial review is expressly excluded up until after the Council has set down a time limit for the introduction of measures to reduce the budget deficit following the failure of the recalcitrant state to meet the earlier recommendations of the Council.[37] Thus it is only when the Council proceeds to a decision to intensify or to apply measures including the imposition of a fine that the Court is deemed to have jurisdiction. Thus, the case of the EDP shows that even when economic policy is defined in terms of regulations (the most rigorous form of legal rule within the EU legal order) it remains fundamentally inter-governmental in nature.

EMPLOYMENT POLICY: THE AFTER THOUGHT?

A title on employment policy was introduced in the revisions made in the Treaty of Amsterdam, but is located after the section on EMU and not in the social policy title. It was important politically to include something specific on employment in the Treaty; what emerged is not a Community policy, but the requirement that the EU and member states work towards a co-ordinated strategy for employment, particularly with a view to promoting a skilled, trained and adaptable work force and labour markets responsive to economic change with a view to achieving the objectives in Article 2 EC and Article 2 TEU, which refers to achieving high levels of employment.[38] Employment policy is the third strand of policy that lies at the heart of a successful EMU (Feldstein, 1997). Because member states ceded control of monetary policy to the Union, their ability to respond to asymmetric shocks if and when they arise by running a budgetary surplus or changing interest rates is curtailed (Begg, 1998: 45; Costa and De Grauwe, 1999; Scott, 1999: 42). However, this restriction on freedom of action has been apparent for several years. The smaller European economies had little freedom in monetary policy, since capital controls were removed in the early 1990s and the extent to which the EDP would have restricted fiscal policy over the last 10 years, had it been in operation, is negligible (Buti and Sapir, 1998). Fiscal federalism does not exist within the EU such that funds can be transferred to states suffering economic difficulties (Tondl, 2000), and hence alternative adjustment mechanisms, such as labour market flexibility, have become more important. The co-ordination of employment policy at the EU level can thus be seen as joint attempt to tackle the perceived structural rigidities that lie at the heart of European labour markets with the aim of enhancing the shock absorbency of wages and employment against asymmetric shocks. The link with monetary and budgetary policy is apparent on a formal level not only from where employment policy is located within the Treaty, but also from Article 126 (EC) under which member states are required to work towards a co-ordinated employment strategy in a manner consistent with the BEPG.

The format for ensuring co-ordination is similar to that governing economic policy without the greater formalism of the Stability Pact. The aim is to have a rolling programme of common guidelines and information on implementation. The European Council adopts conclusions on the basis of a joint report from the Council (Ecofin and the Labour and Social Affairs Council) and Commission. The Council then adopts guidelines on employment consistent with the BEPG. The member states submit annual reports to the Council and Commission on how they implement those guidelines and the Council reviews that implementation. If necessary, it can issue recommendations on the basis of a Commission recommendation. The institutional balance is similar except that there is no role at all for the European Parliament or the EFC. Instead, a new Employment Committee has eventually been established following lengthy discussions over the inter-relationship of employment and economic policy.[39] The Committee has a consultative, advisory and monitoring function and is required to consult management and labour and have two national representatives from each Member State.

The European Employment Pact

In addition to the attempts at co-ordination of fiscal policy under Articles 99 and 104 EC, the European Council has devised a European Employment Pact consisting of the Luxembourg (European Council, 1997), Cardiff (European Council, 1998) and Cologne (European Council, 1999) Processes which aim to co-ordinate a strategy to unemployment; structural and economic reform, and to establish a macroeconomic dialogue (Hodson and Maher, 2000). None has a legislative base as yet and exists exclusively in the political realm supplementing the existing initiatives and institutional frameworks. The first two processes are modelled on multilateral surveillance. Thus co-ordination in relation to employment policy is achieved through national reporting and Community guidelines. In order to promote what is deemed the necessary structural reform of markets in the wake of EMU, co-ordination is suggested through an annual assessment of structural and economic reforms to form the basis of the broad economic policy guidelines. National reports lead in turn to Commission reports.

The macroeconomic dialogue is an even less rigid arrangement establishing a common forum for discussion whereby a broad range of policy actors, in particular the social partners, are to be brought together with a view to linking economic policy initiatives and employment policy. Following its meeting in Lisbon in March 2000, the European Council will meet annually with reports from the various processes being organised around the meeting, along with an overall synthesis report by the Commission (European Council, 2000; Hodson and Maher, 2000). Thus the European Council has a pre-eminent role in ensuring overall coherence of the Employment Pact, underlying the fact that ultimate responsibility remains at the national level with co-ordination at the intergovernmental level and the EU Commission having only a supporting role.

CREDIBILITY AND LEGITIMACY

Credibility

The economic policy architecture of EMU is primarily built on ensuring the credibility of the ECB in particular and EMU in general. In short, credibility refers to the belief — in this context among economic agents especially the financial markets — that an institution can carry out the functions assigned to it (Snyder, 1999: 463). Credibility is neither an explicit or implicit economic policy objective but is a means to an end – the end defined in the Treaty as price stability.[40] The achievement of price stability depends in part on whether the monetary authority is seen as having credibility by economic agents (McCallum, 1980; Jayasuriya, 2001: 113). Agents act on the basis of what they believe will happen not on the statements of what public authorities would like to see happen. If a central bank is believed (that is, has credibility), then those agents will lower their expectations of inflation when the Bank announces its anti-inflationary preferences. As a result lower inflation can be achieved more readily. The independence of the ECB and national central banks, which is so carefully spelt out in the Treaty and the Statutes of the Bank, is one key aspect of ensuring its credibility by insulating them from political influence.

The objective of price stability in Europe is therefore not just the concern of supranational monetary authorities. It also is affected by the actions of individual Member States and encompasses a range of economic policy instruments. How these instruments interact between Member States and with regard to monetary policy is crucial to the objective of sustained non-inflationary growth. The generic response to this fact suggests that economic policies in the euro zone must be co-ordinated with monetary policy, although economists disagree about the precise nature of such co-ordination (Mooslechner and Scheuez, 1999). Some commentators have called for a supranational economic government to act as a counterpart to the Eurosystem (Werner Report, EC, 1970). Despite the best efforts of the French government (Dyson & Featherstone, 1999: 254), there is no such government and economic policies other than monetary policy remain within national competence. Others have called for a strictly intergovernmental approach to co-ordination, in which sovereign governments ensure a harmonious interaction between economic, monetary and labour market developments in the Community (Levitt and Lord, 1999). At either end of this spectrum, however, the message is that within EMU economic policies cannot be formulated in a spirit of benign neglect.

Despite the importance of the economic dimension to the maintenance of price stability, it was largely subordinated to the monetary dimension during the construction of EMU. The convergence criteria in the Maastricht Treaty were very effective incentives for restrained fiscal policies, because membership of EMU was dependent upon compliance with them. Once membership is achieved there is no corresponding threat of ejection for non-compliance with the fiscal criteria in the Stability Pact. Instead, the threat of a deposit convertible to a fine against the recalcitrant state is regarded as weak or at best, can be described as symbolic (Wessels & Linsenmann, 2000). Nonetheless, the presence of the fiscal criteria backed by sanctions can be seen as an incentive for co-ordination as it provides a framework within which information exchange at the national level with guidelines at the European level may lead to policy formation backed by peer pressure. The question that remains is whether or not that peer pressure will be sufficient to ensure the sort of budgetary restraint necessary to ensure low inflation especially when approaching a national general election or in the light of an asymmetric shock. The Employment Pact creates a forum for exchanges of information with a view to co-ordination but without any formal institutional structure or strong legal powers. The architects of EMU appear, on the whole, to have placed considerably more weight on monetary policy and its credibility rather than economic developments. This emphasis could ultimately be self-defeating since even if the ECB earns credibility in the eyes of the markets, the policy landscape within which the ECB makes its decisions could severely hamper the credibility of monetary policy formation.

Legitimacy

Legitimacy can refer to the belief that an institution is the proper one to carry out the functions assigned to it (Snyder, 1999: 463). The concept is, as Weiler (1997) notes, however as overarching as it is under-defined. The modern debate effectively begins with Weber's investigation of legitimate domination in which the legitimacy of a public institution arises from people's belief that it is legitimate (Weber, 1978). The literature on this principle of recognition (Almond and Verba, 1963) is contrasted by Banchoff and Smith (1999) with that which focuses on representation, where democracy and accountability play the most important roles (Held, 1984; Connolly, 1984; Beetham, 1991).

Given the sharp criticism that surrounds the transfer of policy instruments to the Community level, it is hardly surprising that the concept of legitimacy has found a niche within the literature on European integration. In their survey of this literature, Banchoff and Smith (1999) distinguish between two broad approaches. The first is forged in a Weberian tradition and focuses on public attitudes towards the Community (Niedermayer and Sinnott, 1995; Anderson, 1995; Franklin et al., 1994). The second concentrates on the legitimacy of European institutions and is, perhaps, best known for the 'democratic deficit' debate (Abromeit, 1998; Williams, 1991).

Questions about the legitimacy of the EU are closely bound to the contested and complex nature of its institutional set-up (Banchoff and Smith, 1999) and similar questions arise in the context of EMU. Two issues in particular have emerged in debates about the legitimacy of EMU. The first concentrates on the notion of common values and in particular on the heterogeneous nature of inflation preferences among Member States. Such differences could make it difficult to place price stability at the centre of a macroeconomic regime and hence to legitimate the regime by reference to such a value (DeGrauwe, 2000). The second issue concentrates on the accountability of the ECB and points towards the inherent difficulties in reconciling the principles of legitimacy, supranationality and independence (Amtenbrink, 1999; Levitt and Lord, 2000).

Verdun & Christiansen (2000) analyse both the sources of legitimacy and the transmission of legitimacy from one area of policy making to another. The legitimacy of policy making, they argue, depends on 'the link between institutions and their polities (their degree of societal embeddedness), on the link between policies and institutions (the effectiveness of the electoral process) and on the link between policies and their social and economic effects (output orientation)' (Verdun & Christiansen, 2000: 174). A key requirement in representative democracy is that policy makers enjoy legitimacy in the eyes of the general public. This brings a degree of stability to the public administration and allows policy makers to pursue policies that are designed to improve the general good, even if such policies lack popular support at the time of conception. Such legitimacy can be obtained in circumstances where the general public perceives that a public institution is democratically accountable; that is if the actions of the institution reflect majoritarian preferences. Alternatively, legitimacy may spring from the societal consensus, which surrounds the institution. Although such a body may not be held directly accountable for its actions, such actions are nevertheless, embedded the 'culture, beliefs, history and identity' of the democracy in question (Verdun & Christiansen, 2000: 174). The final source of legitimacy rests with the ability of the institution to deliver positive policy outcomes. The logic here is that an institution, which consistently delivers economic and social benefits, is more likely to generate legitimacy in the eyes of the public.

Applying this analysis to EMU, Verdun & Christiansen conclude that the legitimacy of the project is threatened by the fact that its institutions are neither accountable to the general public nor embedded within a broader social consensus. This leaves EMU dependent on 'output orientation' as its main source of legitimacy. Since there is a significant risk that EMU may fail to achieve positive economic and social outcomes or may even yield negative effects, the legitimacy of the project remains, they argue, in considerable doubt. Integration within the monetary sphere has surpassed that within the economic and political spheres with the *monetarist* approach to EMU suggesting that a single currency should be a catalyst for deeper integration rather than a symbol of its completion (Snyder, 1999). The legitimacy of monetary policy could similarly spill over into the economic sphere. The difficulty is however that neither common values nor democratic accountability can be attributed to EMU.

In consequence, this leaves 'output orientation' as the only viable route by which EMU may seek legitimacy.

Verdun and Christiansen argue that EMU is reliant on output-orientation for legitimacy because of the project's 'incomplete institutional design,' the missing component being a set of legitimate public institutions which could be used to uphold democratic accountability and to embed EMU within a wider system of beliefs and values (Verdun and Christiansen, 2000: 163). They thus argue for a democratically accountable EU economic policy (Verdun and Christiansen, 2000: 168).

Building on the work of Verdun and Christiansen this paper places greater emphasis on the emerging policy-mix in its analysis. Monetary integration has considerably outpaced economic integration but, a plethora of rules, procedures and processes to govern fiscal, employment and supply-sided policies are being developed. In so much as these elements shape the performance of the euro zone economy, they will contribute – for better or for worse – to the legitimacy of EMU.

Economic integration does not command the legitimacy that it requires to provide an interface between monetary and political institutions. What does this mean? Although the issue of legitimacy is common to the economic and monetary dimensions of EMU, it has different dimensions. Democratic accountability does exist for fiscal and employment policy formation, which is embedded at the national level and prima facie is ultimately accountable to national democratic institutions. As a Community dimension to fiscal and employment policies is generated either trough greater integration or Europeanisation of national policy as a result of greater co-ordination, it is open to question whether such policies can be held accountable at the European level given the current institutional framework. While the European Parliament can summon testimonies from both the Economic and Financial Committee and the Economic Policy Committee, it has limited influence and overview in relation to the Stability and Growth Pact or the Policy Processes, and has so far failed to gain representation at the Macroeconomic Dialogue despite its enthusiastic support for the Cologne Process. In contrast, monetary policy can, at least, draw on a clearly defined institutional framework in its pursuit of democratic accountability. The testimony of the ECB to the European Parliament may not enjoy the same public profile as the Federal Reserve's testimony to the Senate, but this can be expected to develop over time. At any rate, the absence of accountability measures at the EU level for economic policies means that whatever democratic accountability the monetary sphere of EMU enjoys, it is likely to outweigh that of its economic policy, should economic policy become more Europeanised.

The process of economic co-ordination represents a partial transfer of power from the national to the European levels. More fundamentally even where the emphasis is on co-ordination (as in the employment sphere), the processes at the European level constitute an ill-defined selection of committees, policies with an open ended agenda which arguably could lead to considerable integration. . Even though EMU removed monetary policy from it societal context, it does at least integrate existing national central banks into a supranational counterpart. Economic co-ordination has not imitated this *fifteen-to-one* transition and instead has led to a diffusion of autonomy across a wide range of policy fora.

Thus the legitimacy of EMU is contingent on the separate but linked legitimacy of monetary and economic policies. The two policy sectors meet the three main sources of legitimacy in different and varying degrees. Monetary policy may look beyond output for legitimacy given the presence of embryonic mechanisms of accountability which continue to develop and where there are debates as to the appropriate balance between independence and accountability and changes in that balance, albeit of a voluntary nature. These developments suggest that legitimation of monetary policy through effective accountability at the EU level may be possible provided the tensions between credibility and accountability are negotiated in a conscious manner in developing the institutional framework. Similarly in relation to common values, while historically there are a heterogeneous collection of national preferences, the Treaty at least enshrines the commitment of Member States to stable prices and the unprecedented performance of members in Stage II of EMU demonstrated that attitudes towards inflation can change and converge. There is no equivalent common value for economic policies and scant evidence as of yet of a convergence in attitudes regarding economic policy making.

In summary, therefore, the legitimacy of EMU cannot be achieved by monetary or economic institutions alone both institutions must be legitimate in their own right. EMU appears at first glance to suffer a legitimacy deficit in relation to both policy areas. The limited role of the European Parliament in the policy-making process; the relatively unaccountable nature of the ECB; and the lack of any clearly identifiable body responsible for the opaque and secretive web of processes emerging in response to the economic policy gap left by the Treaty, all highlight the lack of functional legitimacy in EMU. Monetary policy possesses a greater potential for legitimacy than does economic policy with a legally enshrined institutional structure, a designated supranational authority and a reporting obligation (however imperfect), to the European Parliament. Economic policy, in contrast falls within the remit of several committees and institutions, is subject to extra-legal developments in the form of the open method of co-ordination under which there is little apparent accountability by policy makers other than to fellow Member States.

The emphasis on monetary credibility in the design of EMU has led to the creation of an asymmetric policy architecture. Such asymmetry poses a threat to both the credibility and legitimacy of EMU. First, it brings with it the risk that economic policy in the euro zone will be insufficiently co-ordinated with monetary policy. This, it was argued, could provide an impediment to the objective of price stability thus undermining the credibility of monetary policy. At the same time, the asymmetric nature of the policy architecture means that comparatively few measures have been put in place to ensure the legitimacy of economic policy. The legitimacy challenges that face monetary policy are well documented and their central message remains undisputed. Yet, in comparison to economic policy, monetary policy has at least put in place a set of (potentially) legitimating mechanisms. So long as it continues on this trend, enhanced economic policy co-ordination is unlikely to bring legitimacy to EMU and may, indeed, reduce it.

Three specific conclusions may be drawn from this argument. The first suggests that monetary credibility is too narrow a pedestal upon which to build EMU. A policy architect that concentrates solely on the establishment of credibility will encounter difficulties unless due regard is given to both the economic dimension of the project and to the principle of legitimacy. Second, any approach to the legitimacy of EMU must concentrate on the legitimacy of the economic as well as the monetary institutions. Finally, a closer inspection of the policy architecture of EMU reveals that the legitimacy problems of monetary policy originate less for want of legitimating mechanisms and more on account of their operation. Economic policy, on the other hand, can appeal to comparatively few legitimating mechanisms and is, in consequence, in need of greater attention lest it undermine the legitimacy of EMU itself.

CONCLUSION

The credibility of monetary policy is secured in part by the independence of the ECB, although there are concerns about its limited accountability. An independent central bank cannot alone ensure the objective of price stability, which is dependent on other aspects of the economy, most notably fiscal policy. Price stability is a common objective for both policies but the means to achieve it are different with fiscal policy part of national competence subject to the broad economic policy guidelines and the EDP. The different levels of governance reflect the current Realpolitik of EMU but greater co-ordination is expected over time. This should bolster price stability, but at the same time could weaken the legitimacy of policy formation. At the moment the relatively soft co-ordination of fiscal policy (and even more so of employment policy), ensures legitimation by national democratic policy-makers. The more formalised co-ordination becomes at the European level, the weaker the democratic link and the greater the need for alternative legitimation through the embedding of the EC value of price stability at the national level over time. In addition, accountable and transparent policy formation processes and institutions must be developed in order to ensure functional legitimacy. While this may in the long run lead to "increased legitimation without democratisation" (Snyder, 1999: 466), viz. the development of shared values in relation to the operation of both economic and monetary policy, it will do so only if care is taken to place the question of legitimacy at the heart of developments so the inherent tensions between credibility and legitimacy are squarely addressed in the emerging architecture of EMU. Perhaps the best hope is that greater co-ordination might occur when a more transparent and accountable institutional framework is set in place and co-ordination can be justified in terms of outputs with the grounding of the shared value of price stability occurring over a long period of time. This would avoid EMU becoming a metaphor for the EU in the negative sense of replicating its legitimacy crises. The question is whether the credibility of the system will require greater co-ordination before these features are put in place.

REFERENCES

Amtenbrink, F., (1999) *The Democratic Accountability of Central Banks: A Comparative Study of the European Central Bank* (Oxford, Hart)

Artis, M.J. & Buti, M., 'Implementation of the Stability and growth Pact' *Journal of Common Market Studies* 38, 4: 563-591.

Artis, M.J. and B. Winkler (1997), 'The Stability Pact: Safeguarding the Credibility of the European Central Bank', Centre for Economic Policy Research, Discussion Paper: 1688.

Beaumont, P., and Walker, N., (1999) 'The Euro and the European Legal Order' in Beaumont, P. and Walker, N. (eds.) *Legal Framework of the Single European Currency* (Oxford, Hart)

Begg, I., (1998) 'Affording EMU' in Duff, A., *Understanding the Euro* (London, Federal Trust)

Bini Smaghi, L. and Casini, C., 'Monetary and Fiscal Policy Co-operation in EMU' *Journal of Common Market Studies* 375-391

Boyer, R., (2000) 'Political and Institutional Deficits of the Euro' in Crouch, C., (ed.), *After the Euro: Shaping Institutions for Governance in the Wake of European Monetary Union* (Oxford, OUP)

Buiter, W.H., (1999) 'Alice in Euroland' *Journal of Common Market Studies* 37(2): 181-209

Buti, M and Sapir, A (1998) *Economic Policy in EMU – a study by the European Commission Services*, Oxford: Oxford University Press.

Carter, C. and Scott, A., (1998) 'Legitimacy and Governance Beyond the European Nation State: Conceptualising Governance in the European Union' *European Law Journal* 4(4) 429-445

Connolly, W., (1984), W. Connolly (ed.), *Legitimacy and the State*, (Oxford, Basil Blackwell Press)

Costa, C., and De Grauwe, P., (1999) 'EMU and the Need for Further Economic Integration' in Meeusen, W., (ed.), *Economic Policy in the European Union: Current Perspectives* (Cheltenham, Edward Elgar)

Cukierman, A., (1992) *Central Bank Strategy, Credibility and Independence: Theory and Evidence* (Cambridge, MIT Press)

De Grauwe, P., (1997) 'Fiscal Policies in Monetary Unions' in de Grauwe, P., (ed.) *The Economics of Monetary Integration* (3rd ed., Oxford: OUP)

\- , (2000) *Economics of Monetary Union* (4th ed., Oxford, OUP)

de Haan, J., and Eijffinger, S.C.W., (2000) 'The Democratic Accountability of the European Central Bank' *Journal of Common Market Studies* 393-407

Dyson, K., (2001) 'European states and Euro Economic Governance: Some Conclusions' in *

-, (2000) *The Politics of the Euro-Zone: Stability or Breakdown?* (Oxford, OUP)

Dyson, K., and Featherstone, K., (1999) *The Road to Maastricht* (Oxford, OUP)

Ecofin Council, *Report to the European Council in Helsinki on Economic Policy Co-ordination: Review of Instruments and Experience in Stage 3 of EMU*, 29.11.99, Press Release 13123/99

European Council, (1997) Extraordinary Meeting on Employment: Presidency Conclusions, Luxembourg 20 and 21 November 1997, Press Release: Luxembourg (20-11-1997)- Nr:SN 300/97.

\- (1998) Presidency Conclusion, Cardiff European Council 15-16 June 1998, Press Release: Cardiff (15-06-1998) - Nr: 00150/98.

\- (1999) Presidency Conclusions, Cologne European Council 3-4 June 1999, Press Release: Cologne (04-06-1999) - Nr: 150/99.

\- (2000) Presidency Conclusions, Lisbon European Council, 23-24 March 2000, Press Release: Lisbon (24-03-2000) - Nr:100/1/00

Favero, C., Freixas, X., Persson, T., Wyplosz, C., (2000) *One Money, Many Countries: Monitoring the European Central Bank 2* (London, CEPR)

Feldstein, M., (1997) 'The Political Economy of the European Economic and Monetary Union: Political Sources of an Economic Liability' *Journal of Economic Perspectives* 11: 23-42

Goodfriend, M (1999) 'The Role of A Regional Bank in a System of Central Banks', Federal Reserve Bank of Richmond Working Paper 99-4.

Gormley, L., and de Haan, J., (1996) 'The Democratic Deficit of the European Central Bank' *European Law Review* 21(1) 95-112

Haas, P. M., (1992) 'Epistemic Communities and International Policy C-ordination' *International Organisation* 46, 1: 1-35.

Habermas, J., (1976), *Legitimation Crisis* (London, Hienemann Educational Books)

Hadjiemmanuil, C., (2000) 'Democracy, Supranationality and Central Bank Independence' in Kleineman J., (ed.), *Central Bank Independence: the Economic Foundations, the Constitutional Implications and Democratic Accountability* (London: Kluwer)

Hall, P.A., and Franzese, J., (1998) 'Mixed Signals: Central Bank Independence, Co-ordinated Wage Bargaining, and European Monetary Union' *International Organisation* 52(3): 505-535

Hanny, B. & Wessels, W., (1998) 'The Monetary Committee: A Significant though not Typical Case' in Van Schendelen, M.P.C.M., *EU Committees as Influential Policy makers* (Aldershot: Ashgate)

Harden, I., (1999) 'The Fiscal Constitution of EMU' in Beaumont, P. and Walker, N. (eds.) *Legal Framework of the Single European Currency* (Oxford, Hart)

Harden, I., von Hagen, J., Brookes, R., (1999) 'The European Constitutional Framework for member states' Public Finances' in Andenas, M, Gormley, L., Hadjiemmanuil, C., Harden, I. (eds.), *European Economic and Monetary Union: The Institutional Framework* (London: Kluwer)

Herdegen, M.J., (1998) 'Price Stability and Budgetary Restraints in the Economic and Monetary Union: The Law as Guardian of Economic Wisdom' *Common Market Law Review* 35(1): 9-32

Hodson, D., Maher, I., (2000) 'Should we mind the Gap? EMU and Consolidating Processes in Lisbon' *European Business Journal, 03/00: 160-165.*

Issing, O., (1999) 'The Eurosystem: Transparent and Accountable or "Willem in Euroland"' *Journal of Common Market Studies* 37(3): 503-519

Italianer, A., 'The Excessive Deficit Procedure: A Legal Description' in Andenas, M, Gormley, L., Hadjiemmanuil, C., Harden, I. (eds.), *European Economic and Monetary Union: The Institutional Framework* (London: Kluwer)

Jayasuriya, K., (2001) 'globalisation and the Changing Architecture of the State' *Journal of European Public Policy* 8, 1: 101-123

Jones, E., (2000) 'EMU and Europe's Democratic Deficit', mimeo, University of Nottingham.

Lastra, R.M., (1999) 'European Monetary Union and Central Bank Independence' in Andenas, M, Gormley, L., Hadjiemmanuil, C., Harden, I. (eds.), *European Economic and Monetary Union: The Institutional Framework* (London: Kluwer)

Lemierre, J., (1999) 'Making Policy Co-operation Effective' in Currie, D., Donnelly, A., Flassbeck, H., Hall, B., Lemierre, J., Padoa-Schioppa, T., Wicks, N., *Will EMU lead to a European Economic Government?* (London: CER)

Levitt, M. and Lord, C., (2000) *The Political Economy of Monetary Union* (Basingstoke: Macmillan)

Lipset, S.M., (1981) *Political Man; The Social Basis of Politics*, (Columbia, John Hopkins University Press)

Louis, J-V., 'A Legal and Institutional Approach for Building a Monetary Union' (1998) Common Market Law Review 35(1): 33-

Kilponen, J., Mayes, D. and Vilmunen, J. (1999), 'Labour Market Flexibility in Northern Europe', One Europe or Several Working Paper 2/99.

Majone, G., (1998) 'Europe's "Democratic Deficit": The Question of Standards' *European Law Journal* 4(1) 5-29.

Mayes, D G (2000) 'Independence and Co-ordination - the Eurosystem' UACES conference at the Central European University, Budapest, April.

McCallum, B. (1980), 'Rational Expectations and Macroeconomic Stabilization Policy', *Journal of Money Credit and Banking*, Nov.

Padoa-Schioppa, T., (1999) 'Europe's New Economic Policy Constitution' in Currie, D., Donnelly, A., Flassbeck, H., Hall, B., Lemierre, J., Padoa-Schioppa, T., Wicks, N., *Will EMU lead to a European Economic Government?* (London: CER)

Pierson, P., (1996) 'The Path to European Integration: A Historical Institutionalist Analysis' *Comparative Political Studies* 29(2): 123-63

Pollack, M.A., (1997) 'Delegation, Agency and Agenda-Setting in the European Community' International *Organisations* 51(1): 99-134

Scharpf, F., (1994), 'Games Real Actors Could Play: Positive and Negative Co-ordination in Embedded Negotiations' *Journal of Theoretical Politics* 61, 1: 27-53

-, (1999) *Governing in Europe: Effective and Democratic?* (Oxford, OUP)

Scott, A., (1999) 'The Macro-economic Context of the Euro' in Beaumont, P. and Walker, N. (eds.) *Legal Framework of the Single European Currency* (Oxford, Hart)

Snyder, F., (1994) 'EMU – Metaphor for European Union? Institutions, Rules and Types of Regulation' in Dehousse, R., *Europe after Maastricht: An ever Closer Union?'* (Law Books in Europe, Munich)

- (1999) 'EMU Revisited: Are We Making a Constitution? What Constitution are we Making?' in Craig P. and de Búrca, G., *The Evolution of the EU* (Oxford, OUP)

Taylor, C., (2000) 'The Role and Status of the European Central Bank: Some Proposals for Accountability and Co-operation' in Crouch, C., (ed.) *After the Euro: Shaping Institutions for Governance in the Wake of European Monetary Union* (Oxford, OUP)

Tondl, G., (2000) 'Fiscal Federalism and the Reality of the European Union Budget' in Crouch, C., (ed.) *After the Euro: Shaping Institutions for Governance in the Wake of European Monetary Union* (Oxford, OUP)

Usher, J.A., (2000) *The Law of Money and Financial Services in the European Community* (Oxford, OUP)

Vanhala, M (2000) 'The First Year of the Euro', Conference on the Euro and the Nordic Welfare State, Copenhagen, June (forthcoming Bank of Finland Bulletin)

Verdun, A., Christiansen, T., (2000) 'Policies, Institutions and the Euro: Dilemmas of Legitimacy' in Crouch, C., (ed.) *After the Euro: Shaping Institutions for Governance in the Wake of European Monetary Union* (Oxford, OUP)

Verdun, A., (2000) 'Governing by Committee: The Case of Monetary Policy' Manchester: Manchester University Press)

Weber, M., (1958) 'Legitimation, Politics and the State', from *Max Weber: Essays in Sociology*, (New York, Oxford University Press)

Weiler, J.H.H., (1992) 'After Maastricht: Community Legitimacy in Post-1992 Europe' in Adams, W.J., (ed.) *Singular Europe: Economic and Polity of the EC After 1992* (University of Michigan Press, Michigan)

-, (1995), 'Fundamental Rights and Fundamental Boundaries: On Standards and Values in the Protection of Human Rights' in Neuwahl, N., and Rosas, A., (eds.) *The European Union and Human Rights* (The Hague, Martijnus Nijhoff)

Wessels, W. and Linsenmann, I., (2001) 'EMU's Impact on National Institutions A Gouvernement Economique in the making: Towards Vertical and Horizontal Fusion?' in

Dyson, K., (ed.) *European States and the Euro: Playing the Semi-Sovereignty Game* (Oxford, OUP)

Wyplosz, C. (1999), 'Economic Policy Co-ordination in EMU: Strategies and Institutions', Paper presented at the German-French Economic Forum in Bonn

---

[1] Article 105 EC.
[2] Article 99 EC. Economic union in a more fundamental sense is of course central to the internal market and the harmonisation of much microeconomic behaviour and policy.
[3] We recognise that the concept of credibility is as hotly debated by economists as that of legitimacy is by political scientists. Seminal contributions to these controversies include Connolly (1984); Cukierman (1992); Habermas (1976); Lipset (1981) and Weber (1958). Although a comparative analysis of this literature would perhaps be of benefit to the present exercise, we see it more as a future avenue of research.
[4] Article 107 EC.
[5] Article 108 EC and Article 7(1) Statute. The personnel of both the ECB and national central banks cannot take instruction from any EC institution or body, from Member State governments or from any other body.
[6] The Statute itself contains exceptions to this general rules see Article 41(1).
[7] Article 110(3) EC. It can issue regulations and decisions as well as non-binding recommendations and opinions.
[8] Article 105(4) EC.
[9] Article 106 EC.
[1010] Although responsibility for external policy is divided in a complex and unclear manner between the ECB and the Council see Article 111 EC.
[11] Article 105(2) EC. There is also a limited role in respect to financial stability see Article 105(6) EC.
[12] Article 113(3) EC.
[13] Article 113(1) EC. The President can also submit a motion for discussion.
[14] Case C-11/00 Commission v. ECB lodged 14 Jan 2000.
[15] Article 98 EC.
[16] Article 99(1) EC.
[17] Article 99(2) EC.
[18] Article 99(3) EC and Regulation 1466/97 OJ L 209, 2.8.97, p. 1.
[19] Article 6 Regulation 1466/97
[20] Article 104 EC and Regulation 1467/97 OJ L 209, 2. 8. 97, p.6;
[21] Regulation 1466/97 n. 18, Regulation 1467/97 ibid.
[22] Resolution of the European Council on the Stability and Growth Pact, OJ C 236, 2.8.97, p.1.
[23] Article 103 EC.
[24] Article 99(2) EC.
[25] Article 99(4) EC.
[26] Article 5(2) for stability programmes and Article 9(2) for convergence programmes Regulation 1466/97 n. 18.
[27] Article 104(3) EC.
[28] Article 115 EC and Resolution of the European Council on the Stability and Growth Pact, n. 22.
[29] Article 99(3) EC.
[30] Article 99(2) EC.
[31] Article 99(4) EC.
[32] Article 104(11) EC.
[33] Originally known as the Euro-11, euro-zone finance ministers now officially refer to themselves as the Eurogroup.
[34] Article 114(2) EC and Council Decision 98/743/EC on composition OJ L 358, 31.12.1998, p. 109, and Council Decision 1999/8/EC on the ECF statute OJ L 5, 9.1.99, p. 71.
[35] Article 114(4) EC.
[36] Resolution of the European Council on the Stability and Growth Pact, n.22.
[37] Article 104(10) EC.
[38] Article 125 EC.
[39] Article 130 EC; Council Decision 2000/98/EC OJ L 29, 24.1.00, p. 21.
[40] Article 105 EC.