Differentiation within the Economic and Monetary Union 30 years on: where do we stand and where are we likely heading?

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Twenty years after the introduction of euro coins and banknotes and thirty years after the project of Economic and Monetary Union (EMU) was first enshrined in the European Treaties, time seems to be right for a deep(er) reflection on how the project of economic integration and especially the common currency project have fared till the present day. The EMU is, indeed, a sort of 'lame man' who rests on two uneven legs. On the one hand, we have a fully integrated Monetary Union, which counts with the full participation 19 of the 27 European Union (EU) Member States. On the other, we have an Economic Union that is still characterised by coordination among the national policies of all 27 Member States, as opposed to full integration at the supranational level.

Looking at EMU through the lens of differentiated integration

A reflection on how the project of economic integration has developed so far may invite to analyses of varying natures, as the successes and failures of the EMU and of the 'euro experiment' could be assessed from, among others, economic, legal, political or sociological perspectives. This short article more modestly proposes a study of the EMU *through the lens of differentiated integration* within the EU. That is, it considers the EMU project by analysing the extent to which not all of the Member States (or part(s) of their territory) fully participate in some areas or initiatives of European integration in this policy field.

Differentiated integration understood in this broad sense has arguably always been a defining feature of the European integration process generally for some leeway has always been left to the Member States in the implementation of EU norms (in the transposition process of directives or in exceptions anchored in EU primary and secondary legislation, for example). However, the area of EMU introduced at Maastricht brought this phenomenon to the next level because it made the differences among Member States ever larger.

Indeed, there is little doubt that although differentiation is not limited to EMU in today's EU, it is certainly in that domain that it is most widespread. That the development of EMU would lead to this (unsatisfactory) outcome was, though, far from evident when it was first introduced. At that time (1992), the then-12 EU Member States all pledged to eventually adopt the common currency with the exceptions of Denmark and the United Kingdom (UK). Nonetheless, a referendum held in Sweden soon thereafter made it clear that it, too, would remain outside of the common currency area. Some of the Central and Eastern European Member States, though under the formal obligation to adopt the euro, are yet to take this step, for economic but also for political reasons for some of them.

The euro area crisis as a trigger for more differentiation within EMU

Differentiation in the area of EMU is nonetheless not limited to the distinction between euro area on the one hand, and EU27 on the other. The euro area crisis that severed in the EU for most of the past decade led to even more differentiation.

This is so for mainly two reasons. First, some of the responses designed to fight the negative consequences of the euro area crisis (and to save the common currency) are euro area specific. This is notably the case of the oversight of and coordination effort among national budgets pursued at the supranational level, as it is more stringent and demanding on euro area Member States than it is on the rest of the Member States. Also, next to solutions adopted within the EU's legal framework, Member States resorted to international agreements to which not all of them are party. For instance, only euro area Member States are part (and may avail themselves) of the instrument meant to provide financial assistance to countries experiencing or threatened by severe financing problems, the European Stability Mechanism (ESM). Member States' membership to the Treaty on Stability, Coordination and Governance (most commonly known as the 'Fiscal Compact') varies too.

The second reason for which differentiation has increased following the euro area crisis derives from the creation of the European Banking Union (EBU). This project was launched in 2012 with a view to severing the link between banks and sovereigns, and to enhancing the resilience of the EU's banking sector more generally, after European banks had faced numerous difficulties and had to be massively recapitalized by Member States using taxpayers' money. To this end, competences in the areas of banking supervision and resolution started to be exercised at the EU level, in replacement of the coordination among national authorities that had previously prevailed. Whilst membership in the EBU is mandatory for all euro area Member States, it is open to all EU27 Member States. Two of them, Bulgaria and Croatia, in fact availed themselves of this possibility in 2020.

As a consequence of these evolutions, three categories of Member States (euro area, EBU and EU27 Member States) currently co-exist.

Some problematic aspects of the current situation

To avoid any misunderstanding, I would like to make clear upfront that I do not wish to criticize in any way the much-needed efforts towards more integration in EMU that we have witnessed over the past decade. Although their outcome may seem somewhat improvable as will be outlined in the following, there is no doubt that the reforms performed went in the right direction, and that they had to be designed taking due account of the Treaty constraints introduced at Maastricht.

This notwithstanding, the existing situation is largely problematic in my opinion. I do not wish to venture here in an economic assessment of the rules in place, nor do I wish to consider the positive or the negative character of the flexibility that has been allowed in their implementation, for instance by the European Commission in the framework of the Stability and Growth Pact. Instead, I want to briefly highlight some of the issues that relate to the *institutional framework* in place.

This framework is characterised by its *complexity, its opacity and it results in unsatisfactory democratic accountability standards*.

That the framework in place is complex is evident from the preceding brief description, for each euro area, EBU and EU27 institutional mechanisms co-exist. That opacity is also one its features derives, for example, from the fact that an informal forum that theoretically brings together the ministers whose currency is the euro to informally discuss 'questions related to the specific responsibilities they share with regard to the single currency' has come to assume a decisive role. As is well-known, the role played by the Eurogroup has gone way beyond the informal role formally ascribed to it, both during and after the euro area crisis. Yet, the need for euro area Member States to discuss among themselves only will admittedly remain as long as the distinction between euro area and EU27 endures. Finally, issues of democratic accountability arise from the framework in place as, for example, there is no democratic control at the supranational level of the Eurogroup and the intergovernmental ESM. Also, the informal character of the Eurogroup makes the control of the individual ministers more difficult at the national level.

Conclusion: where are we and where should we be heading in the next 30 years in the field of EMU?

The COVID-19 pandemic has shaken up the status quo that had previously existed. Whereas the divide between euro area and EU27 appeared to become deeper prior to its outbreak, the solutions adopted to counter its negative economic consequences have had the opposite effect. The measures in place, and especially Next Generation EU, are *EU-wide measures* and not euro area-specific. As (some of the) non-euro area Member States see the benefits of the euro including its resilience and the lower inflation rate it has guaranteed to its members, membership to the euro area may become more attractive to States that had previously been reluctant to lose their monetary sovereignty. Ten years after the creation of the EBU, it appears, too, as though membership in the EBU only is not an attractive option for Member States, such that it may be anticipated that the current situation whereby three categories of Member States co-exist is bound to remain temporary in the future.

In other words, it may be expected that in the long term, it is only the distinction between euro area and EU27 that already existed at Maastricht that will probably endure. At this stage, it is impossible to predict how large the gap will be, that is whether it will grow or diminish in the coming years . The fact that only two categories of Member States will continue to co-exist could in any event contribute to solve some of the issues outlined in this article, but others will remain, and solutions could and should be found to them even in the absence of any Treaty change.