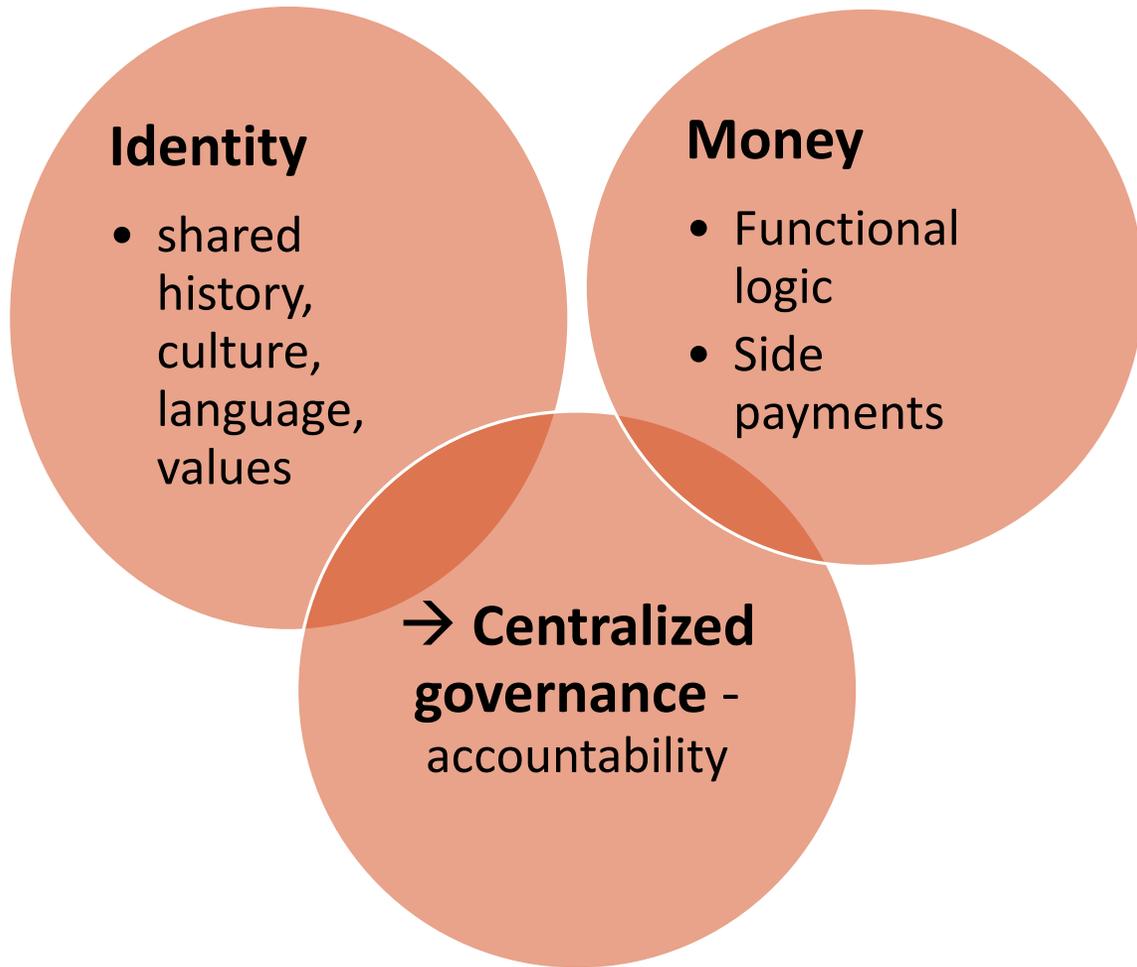


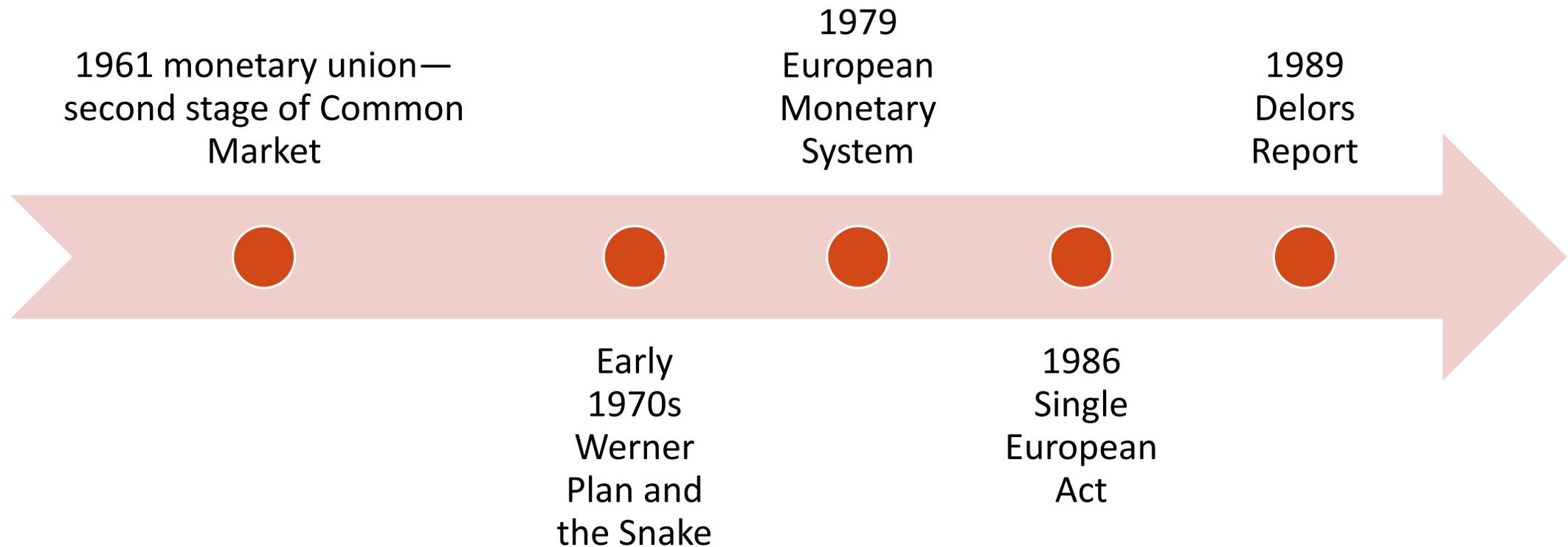
Future of EMU: Political Union

MICHELE CHANG, COLLEGE OF EUROPE



‘although complete political union is not absolutely necessary, the loss of national sovereignty in economic and monetary policy associated with it would probably be bearable only in the context of extremely close and irrevocable political integration’ (Pöhl 1989)

EMU and political union: 2 steps forward, 1 step back



Some expectations

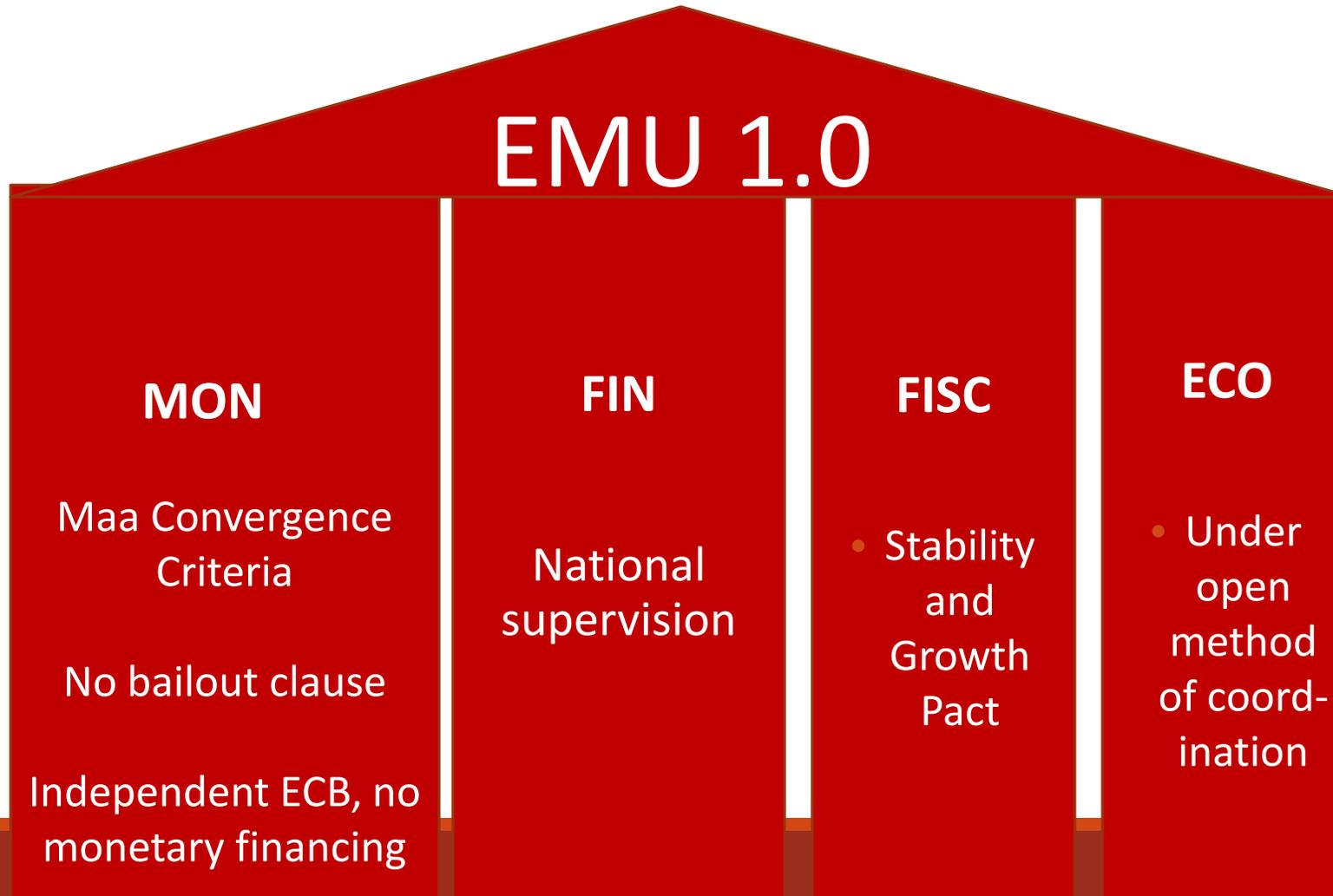
Optimum currency area: mobility of factors of production, dealing with exogenous shocks

Coronation theory: economic convergence → solidarity

Chartalism: money as social relationship between creditor and debtor → EMU needs centralized, legitimate taxation of EU citizens

Neofunctionalism and spillover

Monetary union without political union: OHIO principle

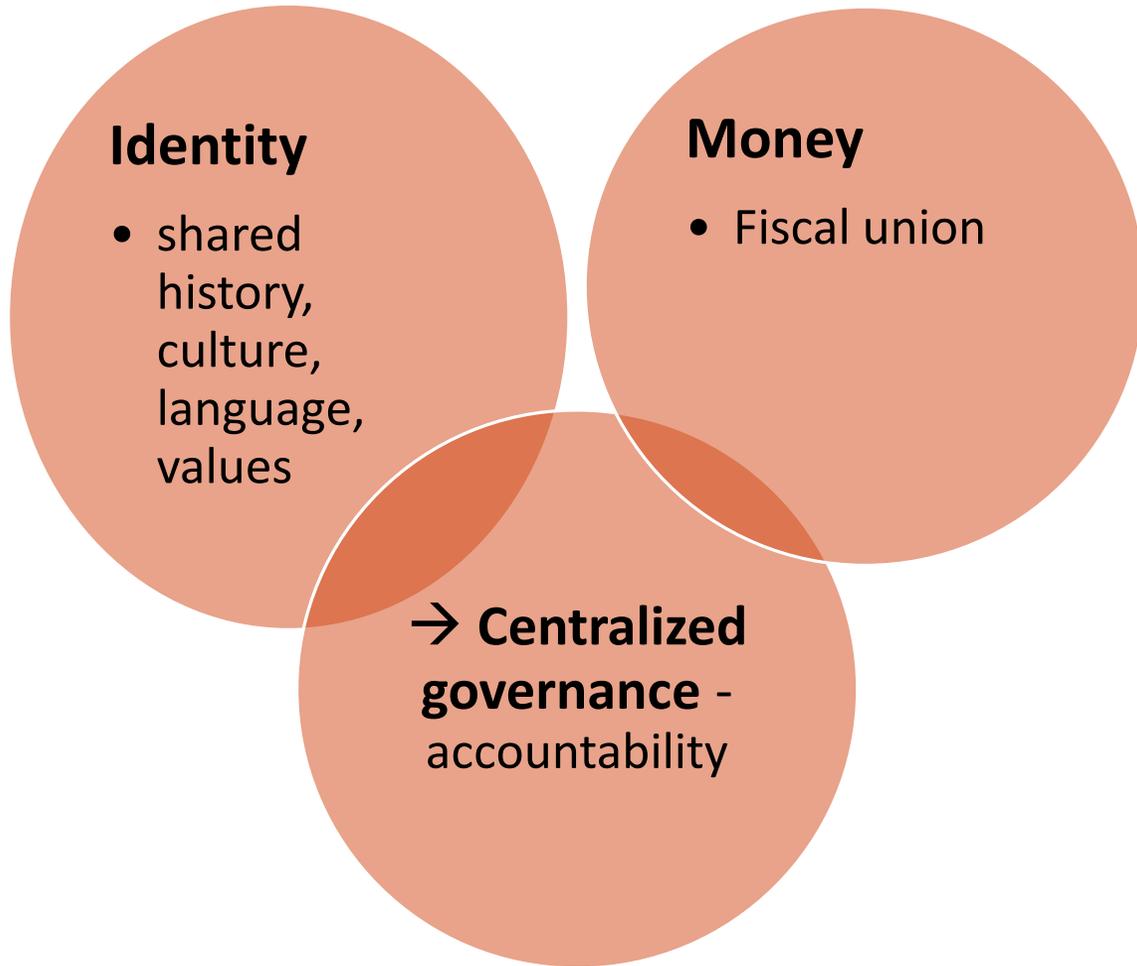


The euro crisis and involuntary integration: revenge of the functionalists

No bailout clause →
European Stability
Mechanism

No monetary financing
→ ECB as quasi-lender
of last resort

National financial
supervision → banking
union



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EMU and political union today

Functional logic of monetary union but rejection of centralization: banking union and ESM strong intergovernmental elements

BUT

Criticism of legitimacy of euro area institutions and policies vs Rising popularity of euro

Risk sharing versus risk reduction divide has slowed further integration: euro area budget and completion of banking union

Differentiated integration within the euro area?