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## Editorial

Ralf Fendel and Michael Frenkel*

# 20 years of European Monetary Union

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January 1, 2019 marked the 20th anniversary of the European Economic and Monetary Union (EMU). While the original idea of a monetary union in Europe goes back to a European Summit in The Hague in 1969, where the Heads of State and Government of the European Community called for a plan for economic and monetary union in Europe, it was not until nearly 30 years later that European monetary unification came about. Between the beginning of 1999, when the European Monetary Union was established, and the beginning of 2019, the group of member countries increased from initially 11 countries to 19 countries. During the same period, the Global Financial Crisis of 2008/2009 as well as subsequent crises in some member countries severely challenged the monetary union several times.

This special issue of the Journal of Economics and Statistics reviews some of the most important aspects of the experience of the monetary unification in Europe during the first two decades. The topics range from a historical perspective to monetary, fiscal and trade problems and also cover issues of policy uncertainty. The special issue deliberately comprises papers of different approaches. Some are more descriptive or policy-oriented and some are more theoretical or empirical.

In the first paper, Fendel and Frenkel provide a comparative study of 20 years of EMU and the 20 years the preceding European Monetary System was in place. The same time length offers an interesting historical perspective at the monetary integration process. The authors look at the performance of different economic variables and show how the member countries performed relative to each other and vis-à-vis other countries. Their study suggests that in some areas (e. g. regarding public debt development), economic stability was lower during the EMU period and in other areas (e. g. the foreign exchange market), it was higher during the EMU phase.

The paper of van Riet examines the monetary policy of the ECB during the first two decades from two perspectives. He shows that, from a Keynesian perspective, the ECB had to fight stagnation for more than half of the 20-year

***Corresponding author: Michael Frenkel,** Economics, WHU – Otto Beisheim School of Management, Vallendar, Germany, E-mail: mfrenkel@whu.edu
**Ralf Fendel,** Economics, WHU – Otto Beisheim School of Management, Vallendar, Germany, E-mail: ralf.fendel@whu.edu

period and, thus, had to pursue a policy of low interest rates to support aggregated demand. However, from a perspective of the Austrian School of Economics, van Riet emphasizes that the ECB, through low interest rates, contributed to financial excesses and thereby did not allow for a faster reallocation of unviable resources, which would have been necessary for a sustainable expansion of aggregate supply. He concludes that, in essence, European governments still have to build an EMU architecture that provides a policy mix that helps the euro area to converge to a higher growth path.

Belke and Dreger ask in their paper, whether the low interest rate environment the ECB created in response to the Global Financial Crisis did indeed help commercial banks to increase lending to the private sector. They raise this question against the background of studies that doubt whether the pass-through of monetary policy is effective if policy rates are close to zero for quite some time. The findings of the empirical analysis of Belke and Dreger suggests that the monetary policy measures of the ECB have in fact worked towards expanding lending of commercial banks.

Kams and Leiner-Killinger examine fiscal policy during the first 20 years of EMU. More specifically, they review the development of fiscal rules during the two decades of the EMU and demonstrate that economic and political factors played a role in these developments. The authors are critical about the current situation regarding the fiscal rules and conclude that the rules are overly complex and incoherent. They discuss several reform options aiming at making these rules more effective and stress that the delay of reforms increases the risk of high adjustment costs that countries have to incur during future crises.

Scharnagl and Mandler study the within-country dimension of financial cycles in the four largest euro area economies for the period from 1980 until 2016 using wavelet analysis. They find evidence for comovement in credit aggregates and house prices in all countries except for Germany at frequencies associated with the financial cycle. These domestic financial cycles are strongly linked to cycles in real GDP and the GDP cycle leads the financial cycle. The authors conclude that financial and real cycles are connected phenomena. When comparing the dynamics of the EMU period with the pre-EMU period, the authors detect that for Spain and Italy the average duration of common cycles is longer in the EMU period compared to the first part of the sample.

Felbermayr and Steininger search for the euro's trade cost and welfare effects. Using sectoral data from 1995 to 2014 within a structural gravity model, they report sizeable aggregate trade effects in goods trade, but only smaller ones for trade in services. They conclude that the common currency has increased real income in all EMU member countries, but this occurred at different rates. Based on a counterfactual analysis they, for example, report that

German real GDP would have been by about 0.6 % lower if the euro had not been launched. Among the large EMU members, this is the largest effect. Small members such as Belgium or Luxembourg turn out to have benefitted even more (1.4 % and 2.1 %, respectively).

Clausen, Schlösser and Thiem empirically investigate economic policy uncertainty spillovers within the EMU as well as their macroeconomic impact. They conclude that economic policy uncertainty spillovers were substantial over the course of the EMU. In particular, Germany became increasingly connected to other countries over the past two decades. However, the opposite holds true for Italy, while the degree of connectedness of France remained unchanged. The authors also show that the economic policy uncertainty shocks do have negative economic impact on output and short-term interest rates. However, the impact of uncertainty shocks is heterogeneous across countries and it is regime dependent being most strongly during the Global Financial Crisis.

The contribution by Hefeker tackles the issue of reform uncertainty and policy spillovers from a theoretical perspective. The lack of structural reforms is often considered as a one of the major problems in many member countries of the EMU. Hefeker develops a model that describes the different levels of inefficiency in the reform process and argues that a monetary union can reinforce the underprovision of structural reforms. He suggests two possible mechanisms that could overcome the inefficiency: reform subsidies and insurance against unfavorable outcomes from uncertain reforms. Theoretically, both can be tailored in such a way that the efficient solution can be reached.

Taken together we believe that the eight contributions to this special issue provide a comprehensive analysis of the European Monetary Union covering the relevant areas of topics as well as being very rich in the methodologies applied.

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