The Development of International Economic and Monetary Cooperation in Europe

Martin Hudec[1]

Abstract

Since the end of the World War II, Europe has gone a long way on the path of a new era of socio-economic integration, continually battling and overcoming the political and economic fragmentation of earlier eras and less developed economies.
The various difficulties and interruptions of the process involved, the European integration, since the 1952 European Coal and Steel Community, ranged from an initial small group to a large community comprising most European countries, the gradual removal of market barriers leading to the introduction of a customs union to the single market. Furthermore, the creation of Economic and Monetary Union and the adoption of the common currency have become the culmination of the whole process of economic integration, since the euro is used daily by 338.6 million Europeans in 19 EU member states. The aim of our research article is to closely analyze the development of the economic and monetary integration of Europe, since we believe that the single currency project represents a great success for the European Union as the result of long-term efforts on currency and economy stability, progress and economic growth.

Key words

Economic and Monetary Union, European Integration, Political Fragmentation

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Introduction

The path to the European monetary integration has essentially began after World War II, abandoning the Gold standard. The classic gold standard was based on the gold cover of circulating banknotes and coins and their free convertibility for gold with basically three existing types called bullion, exchange and specie. The central bank of each country defined the gold content of its currency as a fixed parity between the value of all forms of money and the gold monetary unit. Coins or paper banknotes in circulation could then be exchanged for gold at any given moment and in any quantity upon request. That is why each state could only give as much money as it corresponded to its gold reserves. Fixed parity between national currencies and gold also meant a fixed exchange rate of national currencies to each other, de facto gold was the means of payment. However, such a fixed system is difficult to respond to changes in the performance of the economy and the balance of payments. Between the wars, the gold standard worked in a modified form - by the mid-1920s, most currencies had a floating exchange rate,

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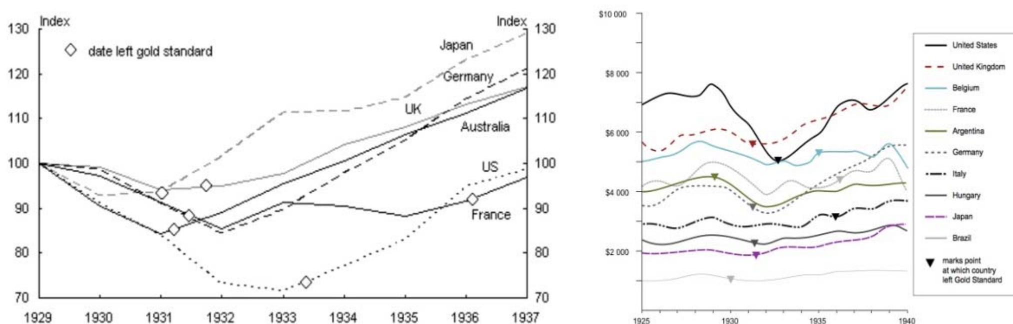
then returned to the gold standard. Only the United States and the United Kingdom exchanged dollars, pounds for gold under certain conditions, the other currencies were settled at a fixed exchange rate, maintaining the so-called golden exchange system (Skousen, 2010). Naturally, this system has collapsed as a result of the economic crisis of the early 1930s (The Great Depression), with the following period characterized by instability and economic protectionism[2].

Scheme 1 Real GDP and Income Per Capita throughout the Great Depression



Source: D. Gruen - C. Clark, 2009

Although the economic crisis has demonstrated flaws in the fixed exchange system, perhaps even more powerful consequences of the experience of the interwar period were only hostile attitudes to floating exchange and foreign exchange markets because of their volatility and being the subject to speculation (although their instability was more likely to be caused by the poor economic situation in the interwar) (Ledbetter, 2017). The World War II destroyed international trade and international financial markets, while the creation of the post-war monetary system foundations and arrangement were laid down at the Bretton Woods Conference by agreements concluded on July 22, 1944, also establishing the International Bank for Reconstruction and Development (thus creating the World Bank[3]) and the International Monetary Fund.

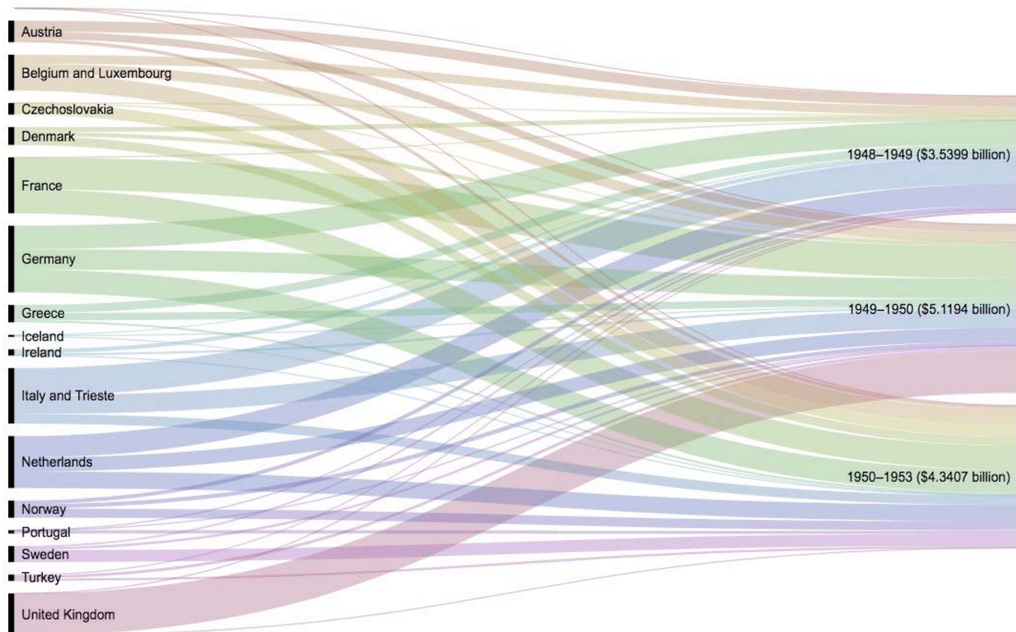
The Bretton Woods Monetary System was the first to be created on the basis of international agreements, based on a system of fixed but customizable rates, it also contained a certain international authority - the International Monetary Fund (guaranteeing its stability) with the reserve currency the US dollar, the only currency convertible

[2] Protectionism was a result of the Great Depression, not a cause, since increasing tariffs didn't play an expansive part in the underlying exchange compression; like the staggering exchange constriction in the 2009 crisis, the decrease in exchange the mid 30s was overwhelmingly the aftereffect of the general monetary implosion. Where protectionism truly made a difference was in keeping a recuperation in exchange when production recovered. Moreover, taxes in Latin America were far higher than anyplace else in the century prior to the Great Depression. This is a shocking actuality given that this locale has been said to have exploited globalization compels superior to most amid the pre-1914 *Belle Époque* and for which the Great Depression has dependably been seen as a critical approach defining moment towards security and de-connecting from the world economy.

[3] The Group consists of the International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency, International Centre for Settlement of Investment Disputes.

to gold but only to foreign central financial institutions (the other currencies were linked to the dollar). The US was obliged to maintain a strong dollar exchange rate against gold, the other members of the system were required to maintain a fixed exchange rate of their currency against the dollar and keep the given parity with a maximum deviation of ±1% (Helleiner, 2016). The exchange rates were maintained through intervention purchases and foreign exchange sales and all its members had to deposit a certain amount of money in gold and in their own currency at the entrance, from which the Fund then provided the states with loans for the balance of payments[4].

Scheme 2 The Marshall Plan Aid Distribution Divided Among Per Capita Basis



Source: Author

The European countries joined the Bretton Woods system later - after the war their economies were greatly damaged. On their renewal, the US approved the so-called Marshall Plan (the European Recovery Program), an American initiative to aid Western Europe, providing Europe in the form of gifts and credits for goods and finance for over $13 billion (approximately €114 billion in current value as of July 2017 according to NBS) between June 3, 1948 - September 16, 1953[5]. Hand in hand, for the administration of the assistance the European Organization for Economic Cooperation (on 16 April, 1948 and reformed in 1961 as the OECD) was established, whose members became all the states of Western Europe (at the time European currencies were not convertible and

[4] In the event of a fundamental imbalance in the balance of payments, states could proceed to adjust their exchange rate against the dollar, so the odds were not entirely solid.

[5] Also influenced by the London Agreement on German External Debts vs. the growing cost of the Korean War vs. the 1950 Congressional elections.

free trade between states was also problematic[6]). Under the Rome Agreements concluded on March 25, 1957 by France, Germany, Italy, the Netherlands, Belgium and Luxembourg, the European Economic Community was established (Behrman, 2008). The basic objectives of this regional organization were continuous economic growth, raising the standard of living and closer cooperation between Member States, which have committed themselves to the creation of a common market, an area with free movement of goods, services, persons and capital.

1 Methodology

On May 9, 1950, Robert Schuman presented his vision on the formation of a strong and united Europe, based on peaceful relations. In the 1957 Treaty of Rome there is no single chapter on the concept of a common monetary policy. It contains only general declarations on the maintenance of monetary stability and balance of payments. It was not necessary because all the members of the European Economic Community[7] were at the same time also members of the Bretton Woods Monetary System, which at that time operated smoothly, and European integration had not yet reached such a level that it would be necessary to implement a single monetary policy (Eichengreen, 2008). In the future, monetary integration was anticipated and the first plans for its introduction were soon launched.

The aim of our research article is therefore to closely analyze the development of the economic and monetary integration of Europe as the result of long-term efforts on currency and economy stability, progress and economic growth. Naturally, a distinct view of the growth process is developing within the evolutionary paradigm and towards the continually improved mathematical formalization of this process. To start with, on simply conceptual grounds, development is considerably closely related to the innovative change, whereas labour productivity furthermore includes the impacts of the probably less particular procedure of capital extending. Besides, because of the absence of industry particular value deflators, ostensible qualities are supported by the impacts of general value swelling. Conversely, socio-economic growth is very closely related to advances in productivity. According to American economist Arnold C. Harberger, this can be demonstrated through aggregate labour productivity growth, where the cumulated shares

[6] To eliminate this fragmentation, the European Payments Union was established (from July 1950 to December 1958, after this period it was superseded by the European Monetary Agreement after completing its role) to take over all the mutual claims and liabilities of the Member States and to transfer them to the only amount that the Member State would have to pay or receive on the other hand. This arrangement allowed the elimination of mutual trade barriers and reduced the need for gold and dollars, greatly contributing to the revival of the European trade and restored the convertibility of the European currencies.

[7] One of the three European Communities (hand in hand with the European Coal and Steel Community and the European Atomic Energy Community, which were in existence since 1958 until 2009. The European Community was founded on July 1, 1967, when the three Communities joint bodies on the basis of the Merger Treaty.

of each of *i* industries in the total value added of manufacturing in the base year *by* are indicated on the horizontal axis:

$$CS(VA_{i,by}) = \frac{\sum_{c=1}^{i} VA_{c,by}}{VA_{tm,by}} \tag{1}$$

where *CS* represents cumulated shares; *VA* represents value added; *tm* represents total manufacturing; *C∆* represents cumulated changes; *LP* represents labour productivity, while the cumulated commitments of every industry *i* to the adjustments in aggregate work productivity between the final year *fy* and the base year *by* of the perception time frame are demonstrated on the vertical axis:

$$C\Delta(LP_i) = \frac{\sum_{c=1}^{i} (LP_{c,fy} * \frac{L_{i,fy}}{L_{tm,fy}} - LP_{c,by} \frac{L_{i,by}}{L_{tm,by}})}{LP_{tm,fy} - LP_{tm,by}} \tag{2}$$

Before the cumulated shares can be figured, enterprises must be arranged by the proportion of their offer in efficiency development and their offer in esteem included amid the base year. The subsequent Lorenz-type curve is a visual portrayal of the level of fixation with respect to the commitment of individual ventures to the adjustments in total work efficiency.

1.1 Structural Bonus or Burden: The Relationship between Structural Change and Economic Growth

First of all, enterprises for the most part don't contribute similarly to general development in labor productivity. The measure of variety watched infers that decent variety and heterogeneity at the level of business sectors and ventures are verifiable realities of monetary improvement. Also, structural change itself isn't a uniform procedure. It shows up in groups and is more articulated for a few businesses in specific periods, and less in others. Thirdly, there exists a specific inclination for structural change to be more articulated amid periods of low total development, while smoother advancements are frequently apparent in conjunction with bigger productivity increments by and large. In this manner, the inquiry is to what degree the watched varieties crosswise over ventures netly affect macroeconomic advancements. Do they offset each other, or are there more orderly powers, so that as a total their joined effect has any kind of effect? The basic structural bonus hypothesis, for instance, proposes a positive connection between structural change and financial development, in view of the presumption that amid the procedure of monetary improvement, economies overhaul from exercises with moderately low productivity levels to ventures with a higher esteem included per work input (Szirmai, 2000). This hypothesis is introduced principally in reference to the assembling part. In spite of the fact that the forecast it suggests isn't generally very exact, we can, at any rate with the end goal of the accompanying examination, take it as a desire that the reallocation of work favors ventures with more elevated amounts of work productivity.

On the other hand, the well-known cost disease contention of unequal development introduced by Baumol (1967, 1985) bolsters a hypothesis in light of the structural weight of created economies, essentially identified with administrations. It essentially expresses that in view of the constrained potential to build work productivity through mechanical advance and the cumulation of reciprocal contributions to creation, enterprises, for example, a large portion of the individual, social and open administrations, can't make up for the ascent in wage levels, constrained upon them by the more dynamic businesses with high productivity development. The result is a characteristic and unavoidable ascent in the cost of generation and expanding shares in work and ostensible yield. Subsequently, the particular hypothesis concerning Baumol's cost disease is that work assets bit by bit shift from dynamic businesses with high productivity development towards less dynamic ventures described by bring down rates of productivity development. It infers a negative effect of structural change on the prospects for total development. Shift-share examination gives advantageous methods for researching both the structural bonus hypothesis and the pertinence of Baumol's cost disease. Applying the same methodology, we decompose the aggregate growth of labour productivity into three separate effects:

$$growth(LP_T) = \frac{LP_{T,fy} - LP_{T,by}}{LP_{T,by}} = \frac{\overbrace{\sum_{i=1}^{n} LP_{i,by}(S_{i,fy} - S_{i,by})}^{\text{I: static shift effect}} + \overbrace{\sum_{i=1}^{n}(LP_{i,fy} - LP_{i,by})(S_{i,fy} - S_{i,by})}^{\text{II: dynamic shift effect}} + \overbrace{\sum_{i=1}^{n}(LP_{i,fy} - LP_{i,by})S_{i,by}}^{\text{III: within growth effect}}}{LP_{T,by}} \quad (3)$$

where *T* represents Σ over industries *i*; SL_i represents share of industry *i* in total employment $(= L_i/L_T)$.

The auxiliary part is ascertained as the total of relative changes in the assignment of work crosswise over businesses between the last year and the base year of the period under perception, weighted by the underlying estimation of work efficiency in the base year. This segment is known as the static move impact. It is certain/negative if ventures with higher profitability draw in progressively/less work assets and consequently increment/diminish their offer of aggregate business. With the end goal of this area, we indicate the basic reward theory as far as the beneficial outcome this first segment has on the total development of work efficiency. The structural bonus hypothesis of manufacturing (*m* represents number of manufacturing industries):

$$\sum_{i=1}^{m} LP_{i,by}(S_{i,fy} - S_{i,by}) > 0 \quad (4)$$

Besides, dynamic move impacts are caught by the entirety of collaborations of changes in labor shares times changes in labor profitability of businesses. In the event that ventures increment both work profitability and their offer of aggregate business, the joined effect is a positive commitment to general efficiency development. (Obviously, the same applies if businesses are portrayed by a synchronous fall in labor efficiency and work shares). As it were, the collaboration term winds up bigger, the more work assets move towards enterprises with quick profitability development. The connection impact is however negative, if ventures with quickly developing work efficiency can't

keep up their offers in absolute business. The negative impact is bigger, the more enterprises with high profitability development are looked with declining business shares. This association term is by all accounts an advantageous apparatus for catching the fundamental forecast of Baumol's cost ailment, which predicts that business offers will move far from dynamic ventures towards those with bring down work profitability development (the structural burden hypothesis of services):

$$\sum_{i=1}^{n}(LP_{i,fy} - LP_{i,by})(S_{i,fy} - S_{i,by}) < 0 \qquad (5)$$

The third impact relates to development in total work efficiency under the presumption that no basic movements have ever occurred and every industry has kept up an indistinguishable measure of offers in all out work from amid the base year. To maintain a strategic distance from a typical deception, we should however review that the as often as possible saw close equality of inside industry development and total development can't be referred to as proof against expansive varieties in industrial structure. Pointers of relative size for specific sorts of economic exercises are decidedly identified with the level of economic improvement. Through the span of time, nations not just tend to build their GDP per capita, yet in addition encounter methodical increments in the extent of the services area relative to the economy. As it were, wage development and moves in the sectoral composition of output are synchronous highlights of economic advancement, while the positive connection between industrial structure and economic and monetary advancement can't be decreased to the basic relationship in time between salary development when all is said in done and some particular, quickly developing segment.

2 Results and Discussion

2.1 Monetary Cooperation in Europe

Monetary policy, which was fully national and in the competence of individual states at the time of European Communities, should only create the necessary conditions for the functioning of the European market, while its concept was not yet developed by the Treaties of Rome. The absence of monetary policy co-ordination during the initial period of the European Economic Community activities has been linked both to the relatively favorable economic development of the member states and to the fact that countries have not yet reached such a degree of social, economic and political integration that would enforce a single or coordinated monetary policy however, situation changed when a proposal for coordinating the monetary policy of the Member States was submitted in the European Commission’s action programme of October 24, 1962 (more widely known as the Marjolin[8] Memorandum) (McCormick, 2017). The inadequacy of the scope and quality of the monetary cooperation at that time was particularly evident, namely

[8] Named after French economist Robert Marjolin, who was directly involved in the formation of the European Economic Community.

during the 1968 monetary crisis (the most serious economic crisis since the Great Depression, leading to the situation where no longer was the dollar convertible to gold), to which France responded by the temporary introduction of foreign exchange restrictions, and in the following year the devaluation of the French franc was 11.11% and the revaluation of the West German mark by 9.29% (Darby, 1984). The accelerated rate of inflation has prompted a speculative movement of capital, which eventually caused considerable imbalances, while it turned out that the monetary policy co-ordination mechanism, based only on mutual consultations and the willingness of stakeholders, was definitely insufficient.

2.2 The Origins of European Monetary Integration

The Hague conference in 1969, led by Luxembourg Prime Minister Pierre Werner, a group of experts was commissioned to draw up a plan for the transition of European Community Member States to Economic and Monetary Union. This plan, also known as the Werner Plan[9], was submitted to the Council of Ministers on October 8, 1970 and became the basis of the concept of the European Monetary Union. The plan was a compromise between two previously prevailing views on the future economic and monetary union: economists, who argued that monetary integration must be preceded by economic convergence and economic policy coordination, and monetarism seeking to fix the exchange rates, where fixed rates would force the Member States to achieve convergence and harmonization of economic policies. The first group, led by German, Netherland and Italian economists, preferred the coordination of economic policies as a prerequisite for the creation of a monetary union. On the other hand, the second group, led by France, Belgium and Luxembourg placed emphasis on a common monetary policy that should lead to deeper coordination of economic policies (Steinherr, 1994).

Based on Raymond Barre's Report (the first and second Barre Plans[10]), which addressed rather the initial phase of monetary union, it contained proposals for closer monetary co-operation in the form of co-ordination of convergence-oriented macroeconomic policies and the creation of mutual lending mechanisms, later, the Schiller Plan (note from the German Finance Ministry and Minister for the Economy, Karl Schiller, on a stage-by-stage European monetary integration from January 22, 1970) was published, which, on the other hand, discussed the final phase of replacing national currencies with a common currency (Badinger, 2015). Economic and Monetary Union should be put in place after a long preparatory period to achieve convergence, a fixed three-phase timetable was set to expire in 1980. According to the report, all obstacles to the movement of factors of production should be removed, monetary and fiscal policies should be managed by central institutions and regional and structural policy should also be coordinated.

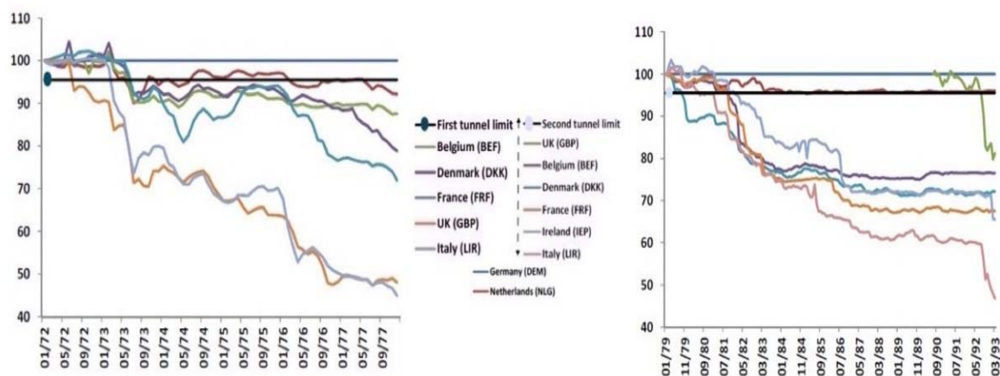
[9] It contained a common concept of the functioning of Economic and Monetary Union, to be set up in three stages over the course of ten years. The plan foresaw the introduction of a complete and irrevocable convertibility of national currencies in exchange rate stability and the immutability of currency parities; a single monetary policy driven by the central monetary institution; centralized decision-making on economic and budgetary policy; a common policy on capital movements and unification of tax systems.

[10] On February 12, 1969, the European Commission, prompted by Vice-President Raymond Barre, submitted to the Council document called "Memorandum on the coordination of economic policies and monetary cooperation within the Community".

2.3 Bretton Woods Crisis and European Currency Snake

In the early 1970s, the Bretton Woods crisis culminated in a deficit of the balance of payments, budget deficits and inflation in the U.S., yielding much more dollars than their gold reserves, which de facto devalued the U.S. dollar (however its rate was fixed against gold). Central banks have therefore been forced to intervene to keep the U.S. dollar at a certain level, foreign banks have created U.S. dollar reserves, while gold reserves have narrowed in the United States.

Scheme 3 Bretton Woods Crisis Affecting European Community Members



Source: Author

Ultimately, the situation became unsustainable, on August 15, 1971, the U.S. announced the abolition of the dollar's convertibility for gold (nor did the later devaluation of the dollar and the expansion of the fluctuation bands help). Based on the G10 Smithsonian Agreement of December 18, 1971 to stabilize monetary relations, the fluctuation of the exchange rate fluctuation band from ±1% to ±2.25% against the U.S. dollar has taken place (Kumar, 2014). This has contributed to the temporary reassuring of the international financial markets and thus to the creation of favorable conditions for the continuation of economic and monetary union within the European Community.

However, the newly-agreed margin was too broad for Western European countries seeking to deepen economic integration, allowing the exchange rates of national currencies to fluctuate within the range ±4.5%. As a result, the central banks of the European Community countries[11] lowered the exchange rate oscillating between member states from ±2.25% to ±1.125% on April 24, 1972, while committing to maintain their exchange rates to all non-participating countries within a broader range. Thus, the exchange rates of the European Community member states should move against the dollar in the expanded fluctuation band against the dollar, in sort of dollar tunnel of 4.5%, while the exchange rates of the national currencies constituted a "snake", whose width was 2.25%. In addition, the Netherlands, together with Belgium, narrowed the fluctuation band of their currencies to ±0.75% from the base parity, creating a "worm within the snake tunnel" (Herrmann, 2017). On a related note, in 1973 all major currencies set

[11] Including the future members of Denmark, Ireland, Norway and the United Kingdom.

a floating exchange rate against the dollar, which meant the end of the Bretton Woods system (since the dollar snake did not work well, in the economic situation, some currencies could not maintain stability and the snake left) (Szász, 1999).

The currency arrangement did not last long, as the United Kingdom, Ireland, Italy and Denmark (which returned to it in October again) left in February 1973. Due to the continued depreciation of the U.S. dollar, the obligation to keep the oscillatory band to the dollar at ±2.25% was abolished in March 1973. However, it remains the duty to maintain a margin of ±1.125% between the national currencies of the European Community member states. The currency snake stepped out of the tunnel, and the currencies of the member countries could move freely against the dollar. In the same year, the oil crisis broke out and because of the Israeli-Arab war, the Arab countries have embargoed oil exports, as a result, the price of oil has risen fourfold, the prices of other energies have risen, consumption and investment have fallen. Economic growth has stalled, because of the wrong policy of some countries and the result was stagflation.

2.4 Entering the Wider Europe: Economic and Monetary Union

The currency instability triggered by the transition to a system of freely fluctuating exchange rates has had a negative impact on the functioning of the existing integration mechanisms within the European Community. This has led member states to accelerate efforts to achieve monetary integration. Several proposals were published in the second half of the 1970s and succeeded in a plan prepared by German Chancellor Helmut Schmidt and French President Valéry d'Estaing, which was first introduced at the Copenhagen Council on April 7, 1978 at the Summit in Bremen. In July, it was decided to implement this plan and it was adopted at a meeting in Brussels on December 4, 1978. The European Monetary System was due to start functioning on January 1, 1979, eventually beginning with a slight delay on 13 March. It was based on three elements - the European Currency Unit, the Exchange Rate Mechanism, and the credit mechanism.

The European Currency Unit was a weighted basket of European currencies in which each currency had a share corresponding to the average of the country's share of GDP in the European Community, the share of the European Community's internal trade and the share of financial resources in the European Monetary System. As part of the European Currency Unit, the currencies of the states that joined the European Community before the Maastricht Treaty came into being, others were not accepted as the introduction of the common currency was under way. The European Currency Unit was used in central bank payment transactions for interventions to support exchange rate stability and to mitigate balance of payments deficits. Emissions of the official European Currency Unit have been entrusted to the European Monetary Cooperation Fund, the states have deposited 20% of their gold and dollar reserves and, as a counter value, corresponding amount in the European Currency Unit was credited to them. The official use of the European Currency Unit was limited, but there was also the so-called private European Currency Unit used for a range of financial operations on international markets. The European Exchange Rate Mechanism was similar to the Bretton Woods system based on fixed but customizable exchange rates. Member state currencies were tied

together in pairs in a parity grid with a fluctuation margin of ±2.25[12] around the central exchange rate of the European Currency Unit.

Additionally, in the event that the exchange rate fluctuated beyond the margin allowed, the banks of both countries concerned were obliged to step up foreign exchange interventions and stabilize the exchange rate once again. To avoid having to intervene when the rate reaches the critical threshold, the so-called divergence indicators were introduced (75% of the allowed fluctuation margin), the country had to take precautionary measures to stabilize the exchange rates (calculated from the exchange rate to the European Currency Unit) (Spahn, 2010). If foreign exchange interventions were not enough to stabilize the exchange rates, it was possible to adjust the exchange rate parities with the mutual agreement of the member states finance ministers. However, not all members of the European Community and the European Monetary System were members of the European Exchange Rate Mechanism, since participation was not mandatory. The European Monetary Cooperation Fund has provided the member states with different types of loans - very short-term for foreign exchange interventions; short-term balancing of balance of payments deficits and medium-term payments in case of serious balance of payments disequilibria, which could harm the Economic Community as a whole.

The European Monetary System has had a positive impact on the European economy, since the exchange rates stabilized during the 1980s, when their fluctuations shrank by more than half. In particular, the second half of the 1980s was a period of stability, with inflation falling. But in 1992 and 1993, there was a major crisis[13] of the European Monetary System. As a result, there was a series of devaluation, Italy and the United Kingdom even came out of the European Monetary System and moved to a floating course. The turbulence in the financial markets has deepened the economic recession. Finally, it was decided to extend the fluctuation band to ±15%, in order to maintain the European Monetary System at least in some form. The monetary stability achieved through the operation of the European Monetary System has given rise to further steps leading to deepening economic integration within the European Community (Druol, 2012). One of these steps was the adoption of the Single European Act (the first major revision of the 1957 Treaty of Rome) on July 1, 1987, and in which the accession of the European Community member states to the single internal market[14] was contracted.

The Economic and Monetary Union Report in the European Community countries, or the Delors Report, was another important step leading to closer cooperation in the economic and monetary spheres. It was drawn up by a group of experts, principally governors of the central banks of the Member States under the leadership of the President of the European Commission, Jacques Delors, and presented[15] to the Council of

[12] In the case of Spain, the United Kingdom, Italy and Portugal, a temporary wider fluctuation margin of ±6%.

[13] After the reunification of Germany, the country was facing inflation, trying to resolve it with a restrictive monetary policy and maintaining high interest rates, but the economy of the other members who had been associated with the German mark was stagnant at that time and was unable to keep its course against the German mark, adding speculative attacks on weakened currencies.

[14] After As a result, the European Single Market was launched on January 1, 1999.

[15] This Report later became a binding document defining the basic organizational principles in the creation of Economic and Monetary Union within the European Community. The Delors Report, in many ways, followed Werner Plan, but it was not only about coordinating monetary policy at the transnational level, but also about introducing a common currency to replace the national currencies. The Report proposed three phases

Ministers on April 12, 1989. The European Council discussed the Delors Report in Madrid on 26-27 July 1989, approving the start of the first stage on July 1, 1990. The further development of integration, not only in the economic field, necessitated a change in the founding treaties.

Scheme 4 Maastricht/Euro Convergence Criteria

What is measured?	How it is measured?	Convergence criteria
Price stability	HICP inflation	Not more than 1.5% above the rate of the three best performing countries
Sound public finances	Government budget deficit	Reference value not more than 3%
Sustainable public finances	Government debt-to-GDP ratio	Reference value not more than 60%
Durability of convergence	Long-term interest rates	Not more than 2% above the rate of the three best performing countries in terms of price stability
Exchange rate stability	Deviation from a central rate	Participation in the European Exchange Rate Mechanism for two years

Source: Author

Therefore, it was decided at the Strasbourg Summit to convene an intergovernmental conference and at the same time enabling a political union. The conference was held at the Rome Summit on December 15, 1990 and was finally completed at the Maastricht Summit on 9-10 December 1991 by the Treaty of the European Union (known as the Maastricht Treaty), which was solemnly signed on February 7, 1992. The Treaty, entered into force on November 1, 1993 (after all 15 member states had ratified it), formally establishing the European Union (Hix, 2011). Furthermore, it divided the agenda of the European Union into transnational and intergovernmental, while the Economic and Monetary Union has become part of the first transnational pillar.

of the Economic and Monetary Union. As part of the first phase (1. 7. 1990 - 31. 12. 1993), the convergence of economic policies and the stability of member states' economies were strengthened, with all countries participating in the European Exchange Rate Mechanism. During the second phase (1. 1. 1994 - 31. 12. 1998), the member states' oscillating currencies were narrowed and the European Central Bank and the European System of Central Banks established. In the third phase (1. 1. 1999 - 1. 1. 2002), sufficient economic convergence was anticipated and the process of fixing exchange rates, replacing national currencies with a common currency (Chang, 2016).

Conclusions and policy implications

European Economic and Monetary Union have gone through a long development, from signing the Treaty of Rome, which enabled the European Economic Community and have successfully created a customs union, through Maastricht Treaty to Lisbon Treaty, actively reforming many legal structures of the Union. Moreover, during the first stage of the Monetary Union, all intentions in the area of exchange rate stability have not been realized at first, as there has been no involvement of all member states in the European Exchange Rate Mechanism. This was due to the fact that the start of the first phase occurred at a time that was not marked by favorable economic conditions. Increasingly, partially reaching the point, where the European Community members have shown significant differences in economic performance and as it was previously stated the second stage of Economic and Monetary Union would begin on January 1, 1994 however, the deadline was shifted by one year at the request of Spain. In connection with this, the situation stressed the need for a sufficient convergence of the European Community economies before the introduction of the common currency. In the second phase, monetary policy remained the responsibility of the national central banks, which were still responsible for coordinating economic and monetary policies to meet the convergence criteria, namely achieving monetary stability. The European Monetary Institute has also begun to contribute to the development of cooperation between the member states' central banks, while the governing body was the Council, made up of the President, Vice-President and Central Banks' Governors.

After protracted litigation, it was decided that the start of the third stage should be decided by the qualified majority at the latest by January 1, 1997, subject to the condition that most countries would meet the convergence criteria. Otherwise, the third phase would start automatically on January 1, 1999, whether the criteria would be met by any number of states. The whole process was planned as irreversible, no one would be able to withdraw from the treaty later and refuse entry to the Economic and Monetary Union. Exceptions were the United Kingdom and Denmark, which had negotiated an exception as soon as the EU Treaty was signed. The entry into the third stage of the Economic and Monetary Union and the adoption of the common currency required certain conditions to be met to ensure that euro area monetary stability was maintained. States were obliged to adapt their legislation in line with the requirements of the Economic and Monetary Union, for example, to adjust the status of central banks and ensure their independence. Another condition was the achievement of the convergence of the economies, for which purpose the so-called Convergence or Maastricht criteria were established. Price stability, public finance, interest rate developments and currency stability were monitored. We can conclude that after complicated negotiations, it was agreed that building Economic and Monetary Union would be based on a fixed timetable and a requirement to meet the convergence criteria, while the result is extremely successful social, economic and political convergence development performance-wise and compromise between different requirements of members.

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