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Summary of the report

On the Legitimacy of Monetary Union

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What is legitimacy and why does it matter to monetary union? Economists have asked most of the obvious technical questions about monetary union: notably whether it can function without being an optimal currency area. Both economists and political scientists have asked whether a monetary union can work without a political union and, most curiously of all, within the institutional framework of a political system that is not a state. But few have asked whether monetary union has sufficient legitimacy to ensure compliance with all its obligations; or, at least, they have rarely done everything that is needed to ask that question.

This report examines the role of all of the following in the legitimacy of monetary union: a) the consent of member states, b) public support, c) policy outcomes, d) fairness and justice e) and democratic control. Yet, at the end of the day, the report argues that the last of these items - democratic control - governs all the other four. That is to say, the other four elements can only contribute to the legitimacy of monetary union in so far as consent to its obligations and decisions on its intended outcomes and standards of fairness are themselves decided by processes that citizens can ultimately control as equals.

Of course, democratic control raises difficult questions for the institutional design of monetary union. The report considers three in detail, as follows:

1. Is it possible to secure some form of 'ultimate democratic control' over the European Central Bank without undermining the arguments that are thought to justify independent central banking in the first place?

2. How should democratic control over monetary union be distributed between national democratic institutions and the European Parliament? Whilst it is the former that confer powers on the Union, national parliaments may not always be the best placed to deal with three structural difficulties created by a monetary union: namely, negative externalities, free-riding and moral hazard. National parliaments may also be less well placed than the European Parliament to develop expertise and other capabilities needed to secure the adequate control of monetary union.

3. How can monetary union be reconciled with political equality conditions for democracy when the national democracies of member states seem to be so unequal in their power over monetary union, and when monetary union seems to 'depoliticise' and 'constitutionalise' decisions of economic policy in ways that create inequalities in favour of those who want to defend, rather than challenge, existing commitments?