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Kenneth H. F. Dyson. *Elusive Union: The Process of Economic and Monetary Union in Europe.* London: Longman, 1994. $80.80 (cloth), ISBN 978-0-582-25132-8; $48.00 (textbook), ISBN 978-0-582-25131-1.

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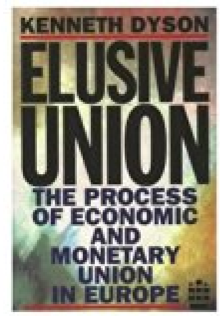

This review has three sections: Argument of Book Organization of Book A Critique

I. Argument of Book

In this important book on the political move towards monetary union by which a number of European nations would use one circulating and reserve currency, Professor Dyson takes on a difficult task; his subject matter is a complex long-term political process concerning economic and monetary issues, yet these issues themselves are not his focus. It is, rather, with questions about how the policy process has been shaped and guided: who are the actors with agenda-setting and veto power; what kinds of bargaining relations exist among them; who establishes the 'rules of the game'; how do we explain the emergence and development of the policy process. He wants to restore political reasons to their proper place in his explanatory story, something that is all-too-often completely ignored in studies of economic and financial issues.

Dyson centers his analysis in an institutional and game theory approach which seems quite suitable to the subject matter. His central argument is that the policy process establishing the existing European Monetary System and the goal of creating a full-fledged European Monetary Union is best understood as composed of a distinct set of interdependent bargaining relations and institutional rules of the game, embedded in a framework of structures that they have a limited, and fluctuating, capacity to influence. There is a complex interaction between the structural dynamics of the international political economy and the internal dynamics of the EMS and EMU policy process.

Furthermore, the nature of the European integration process is shaped by the will and the capability of the central actors involved, which can be fully appreciated only as a set of interlocking bargaining relations that, in turn, interact with certain key rules of the game. All of these – actors, bargaining relations and rules – are embedded in five general sources of structural power – world currency relations, "fundamentals" of each country, and trade interdependence. (This statement of the central argument is distilled from various pages in the introductory Chapter 1.)

Interaction among these sources of structural power generates a lack of consistent control by any one actor. There is no hegemon, to use an older term. This is the essence of Dyson's argument of the hollow core in the EMU policy process. Furthermore, EMU remains a fragile prospect because it rests on decisions to pursue monetary union prior to having in place a strong unified political union to give it necessary support and establish the rules of the game. In this "two-level" policy process (the separation of activities toward political union and toward monetary union) monetary union is being pursued in a highly elitist fashion by financial technicians, central bankers and their international political cohorts. Thus, it generates resistance among people in various countries who cannot see it as part of a known political process. Money, Dyson tells us, has not only an economic and technical face, but a cultural and political face (pp. 3-5). It symbolizes national identity and sovereignty.

II. Organization of Book

Dyson introduces the theme of monetary union requiring prior political authority in his introductory chapter (Ch. 2) on five historical monetary unions. Two of them, the Federal Reserve System of the United States and the German centralized system are strong and successful national monetary unions; that is, political union preceded monetary union. The other three were international – the Latin Monetary Union of 1865, the international gold standard and the Bretton Woods System – which fell apart when the hegemonic nation at their center began to lose control.

The second history chapter takes us through the activities around monetary coordination in Europe after the Second World War. It briefly summarizes the European Payments Union of the 1950s, the institutions and programs of the European Economic Community of the 1960s, responses to the disintegration of the Bretton Woods system (the "snake" by which EEC country currencies were to float together, or rather, float with the D-Mark; the "snake in the tunnel" by which they were to float together around a dollar parity with fluctuations kept within a narrower band than that allowed other currencies in the IMF) and finally to the dollar crisis of the late 1970s which fostered the birth of the Exchange Rate System in which outlines of the original "snake" could still be discerned.

It is only at Chapter 4 that we arrive at the heart of the book's subject: an historical narrative, thick with detail, which takes us through the bargaining relations and configurations of power in two periods of major change –1978-79 and 1988-91. The first period saw creation of the European Monetary System in 1979, rapid implementation of a European Monetary Union with a single currency, which would replace the Exchange Rate Mechanism in which member countries must try to maintain set exchange rate parities but also negotiate changes in them as frequently as necessary. (Ch. 5)

We get a good sense of the importance of central banks; of Britain's loss of power; of the relevance of the right people at the right place at the right time (and the wrong time); of the centrality of Franco-German bargaining; and, most of all, of the centrality of Germany. Even that is more complex because one of the most central bargaining fronts is between the German government and the independent Bundesbank. The Bundesbank always thinks in terms of what is good for Germany according to its conservative banking philosophy. In this sense, it is not an international player but a national player thrust onto the international stage with a lead role it does not want.

The German government, on the other hand, is led by men who experienced the Second World War and must carry with them their country's horrible past in the mid-twentieth century. Taking a lead in forming the European Monetary System as a response to American "abdication" of international responsibility (with the 1978 dollar crisis and, indeed, earlier with the demise of Bretton Woods) would bring some redemption in the role of a constructive and good international partner.

Underlying these political considerations, however, is the economic reality that the postwar German economy has been the engine of growth for Europe. This has been the primary asymmetry in the 'economic fundamentals' which spawned asymmetries in currency strength and bargaining power. The German government and the Bundesbank could not always have things their own way but nothing could happen without their cooperation. As Dyson puts it "the one veto position that really mattered" and "the pivot around which a balance had to be found" (p. 155).

Yet because of its past, Germany must express its power through international cooperation rather than acting openly as the hegemon of Europe, while other countries, particularly France, are concerned to curtail German power without destroying that international cooperation.

Dyson follows Part I on historical perspectives with Part II on theoretical perspectives which focuses on the sources of structural power: the "two-level" policy process; the D-Mark as anchor currency; the ascendance of monetarism over the kind of expansionary policies known as Keynesianism; changes in financial markets, in production and distribution and employment (the economic fundamentals), in trade patterns.

III. A Critique

It is these mostly economic issues in Part II that this book; a reader with economist's eyes who kept feeling there was something crucial missing from the historical narrative of the first 175 pages. Admittedly, *Elusive Union*is about a political process and as such, it highlights a general failing of economists who take specific political configurations as givens when, in fact, contingent policy processes concerning economic activity need to become variables. Yet, at the same time, the book is about political processes concerning economic organization and activity and, therefore, cannot help but deal with economics if it is to be comprehensive. But then, how to model such a complexity or even to incorporate the political and economic in the same narrative? It is not easy; Dyson's not unreasonable solution is a book with two parts, but this tends, I think, to weaken his project by muting the economic debates and questions he rightly considers the key ones. They are in there but they tend to get lost; they don't stand out clearly as they should.

It would have been better, I think, to have tried to integrate political process and economic structure and to have presented at the beginning a clear schema of various relevant historical economic debates: the economic and political differences between fixed vs. flexible vs. freely floating exchange rates and why the latter has rarely been supported by anyone but economic theorists; who generally does and does not benefit by exchange controls and capital controls; how exchange rates and particular adjustment mechanisms for curing balance-of-payments deficits (but not surpluses) are connected to questions of sufficient liquidity for full employment economic growth and inflation; what it would mean to different sectors of society in each country to force convergence among them of money supply changes, interest rates, inflation rates, current-account balances, and especially fiscal policies and deficit spending decisions. Then tracing such issues through the political narrative would give it clearer economic meaning.

Although almost all these economic questions are historic issues, they don't directly appear in the initial narrative on historic monetary unions because of its focus on the necessity of prior political union. This important but narrow focus leaves this introductory chapter seeming both rather superficial and yet too much at the same time.

For example, on p.32 Dyson refers to obstacles "all the more apparent when one considers the difficulties of moving from political to monetary union in relatively homogeneous cultural areas like Germany and the United States." But was cultural homogeneity the dominant dynamic involved in struggles around establishing central control over monetary activity? Which were the economic forces in late 19th and early 20th century USA that supported and that opposed a central bank? Who would benefit from decentralized and unregulated currency? What about the argument that money creation based on decentralized banking may have been unstable but nevertheless supplied the necessary liquidity for economic growth?

Yet, on the other hand, Germany had a high level of growth in the late 19th and early 20th century with a highly centralized banking system, yet how independent was the Reichsbank from government control? This question of the independence of central banks from government directives geared to particular political interests could have used a more systematic historical presentation, especially given the Bundesbank's importance in the process toward a European Monetary Union. This should have included the history leading up to the Bundesbank Act of 1957 in which it is explicitly stated that the central bank shall be independent of instructions from the federal government, a history which included loss of independence under the Nazis.

Nevertheless, *Elusive Union* is necessary reading for anyone seriously interested in the prospects of European Union and a basis for further discussion and debate. I found myself imagining how interesting a debate between Kenneth Dyson and Alan Milward might be. Milward argued in *The Rescue of the European Nation* (1992) that participation in the European Community was often a means for nation-states to reinforce national interests rather than subsuming them into common interests of a more unified Europe. On several occasions, Dyson makes reference to some process that might fit this interpretation – France, for instance, coming around to supporting the idea of EMU in the late 1980s because of learning the political lesson "that the EMS involved an asymmetry of power that imposed undue costs on some countries and that could be corrected only by shifting authority to the EC level" (p. 113). But, he makes only one reference to Milward's book and implies that a stage in the EC when "traditional patterns of contending states whose interests were defined by domestic political and economic constituencies" (p. 92) may now have been superceded by the renewed launch toward an European Moneatry Union as part of European Union – unless it turns out to be forever elusive.

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