

State Governance within the EMU in an Age of Globalization—The Case of the UK

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Abstract

The most significant requirement for joining in the Economic and Monetary Union (the EMU) for member states is to hand over economic sovereignty. For the UK, one of the three non-euro EU countries with a strong historical tradition of independence, this delegation of sovereignty seems to be a most demanding price to fulfill its EMU commitment. This paper aims to analyze and assess how the UK's economic sovereignty would be lost and how its state governance would be affected by the EMU membership within the context of globalization. As the UK is one of the world's most open economies and Europe's premier financial center, which further implies its high vulnerability to changes of the world economy and finance, the emerging trend of contemporary globalization and its impact on state governance need to be reviewed first. Within such a context, the role of the EMU as a promoter of economic sovereignty of member states will be argued. This paper will then turn to the case of the UK to discuss how its economic sovereignty will be circumscribed within the EMU by evaluating four indicators. It concludes that, as European economies becomes more homogeneous, and policy convergences

between the UK and the EMU increase, the positive effects of EMU membership on the UK's economic governance in this era of globalization would be more illuminating, while the costs of a loss of sovereignty would be lessened.

Key Words: Globalization, the EMU (the euro), the UK, State governance, Economic sovereignty

I. Introduction

The most direct impact on any country joining a monetary union like the Economic and Monetary Union (EMU), no doubt, is the surrender of its monetary sovereignty to a supranational organization, such as the European Central Bank. Under the uniform governance of supranational organizations, the appropriate levels of interest rates are assessed according to the economic circumstances of the monetary union as a whole, rather than based on the specific needs of an individual member state. In terms of the EMU, namely the European single currency—the euro, it requires an even larger delegation of a member state's fiscal sovereignty, as required in the Stability and Growth Pact. In withdrawing their monetary sovereignty, EMU membership therefore considerably limits the capacity of member states to respond to specific economic shocks. Moreover, the lack of a substantial fiscal transfer mechanism within the current EMU, combined with the requirements of the Pact on member states' public finances, additionally reduces such autonomy when individual member state encounters asymmetrical shocks. This constrained autonomy of state governance, as a result, becomes the biggest price for sovereign states to pay for EMU membership.

A number of studies on whether the United Kingdom (UK) should join in the EMU have been conducted both by academic researchers and policy-makers from an economic approach in the last few years, including the UK government's two detailed official assessments. In these cost-benefit analyses, that assess the conditions under which the UK economy can comfortably fit into the EMU and therefore enjoy the benefits of EMU membership, are well-discussed and elaborated. Most of these studies, however, put less discussion on how the UK's state governance would be affected by the EMU.¹ It is this theme that this paper focuses on,

¹ Some studies did cover both dimensions, for example J. Rollo (2002) and R.

and this scholarly gap that this paper aims to fill. This paper is an attempt to explore the interaction between national sovereignty/state governance and EMU membership within a context of globalization, answering to what extent EMU membership would constrain/ reinforce the UK's state governance under the impact of globalization. It is recognized that the EMU is at its early stage, and sufficient evidence and balanced judgment on its effects on economic sovereignty/state governance is expected to be available only after a considerable period of time. The preliminary evidence that this paper relies on is of the first four years of the EMU during the period of 1999-2003.

This paper argues that, in an age of globalization, the losses of economic sovereignty caused by EMU membership are neither necessarily unilateral nor absolute. Instead, the implications of EMU membership on member states' economic sovereignty are double-edged. Based on the evidence collected, it is asserted that EMU membership can, paradoxically, consolidate and even enhance the effectiveness of state governance for individual countries facing the challenges of globalization through the collectivity of member states, while its constraints on economic sovereignty are not as great and revolutionary as they are theoretically and initially assumed. This paper will specifically examine the case of the UK, which is one of the three non-euro EU countries and has a long history of guarding its sovereign independence.²

The paper will proceed mainly in three parts. First, it will explore the concept of state governance under globalization. How the economic and financial globalization has evolved since the 1960s, and how it has challenged the effectiveness of state governance will be discussed. Based on empirical evidence, section two will further evaluate whether the EMU promotes or undermines state sovereignty within a globalization context, by

² Barrell's (2002) works.

² The other two non-euro EU countries are Sweden and Denmark.

looking specifically at the case of the UK. Through these explorations and evaluations, the paper then concludes with the likely implications of EMU membership for the UK's current economic governance in the final section.

As far as the impact of globalization on economic governance is concerned, the paper will start with a brief review of the evolution of contemporary globalization.

II. Globalization and Economic Governance of Nation States

In order to have a proper understanding of globalization, a commonly acknowledged definition must be clarified first. Given that the main theme of this paper focuses on nation states' economic sovereignty, the concept of globalization will be represented in economic and financial terms accordingly.

A. A working definition of globalization

The term 'globalization' has been widely used in the academic, political and journalistic spheres; however, the meaning of it can be varied depending on corresponding circumstances, and the definition can differ widely based on the different approaches and paradigms adopted by interpreters.

Robert Cox presents globalization as the internationalizing of production and states, the new international division of labor as well as part of a new migratory movements and a more competitive environment, while Rosabeth M. Kanter chooses to term it as the 'global shopping mall' in which any idea and product is available anywhere at anytime. Roland Robertson adds the dimensions of culture and consciousness to it as 'globalization does not simply refer to the objectiveness of increasing interconnectedness. It also refers to cultural and subjective matters.' Martin Khor provides a more simplistic interpretation of a globalization that is equivalent to colonization (Scholte, 1999a: 14-16).

A commonly accepted definition is that globalization mainly refers to an incorporated process in which all social relations of people are conducted and affected in a borderless space and are thus fused together into a single world. Among those social relations, for example, globalized communication occurs through computer networks, telephony, and electronic mass media. In terms of organizations, globalization is carried out by the proliferation and increasing numbers of transnational companies like International Business Machine (IBM), associations such as Amnesty International, and regulatory agencies, like the World Trade Organization (WTO). In ecological terms, globalization can be seen in the crises of climate change, ozone depletion, and the worldwide exhaustion of certain natural resources as well as the decrease in diversity of species. In respect to production, globalization stages a single cross borderproduction line from processing materials, preparing components, and assembling, then to controlling quality, research and development. The advent of transcontinental weaponry such as international ballistic missiles brings globalization into the military sphere, and the same logic can also apply in the cases of the appearance of internationalized crimes and universal standards of human rights (Scholte, 1999a:14-16).

Whereas a definitive clarification of the concept of globalization may still need to be developed, certain core elements can be summarized to comprise this multifaceted and multidimensional concept. Four features proposed by Allan Cochrane and Kathy Pain are distinct (2000: 15-17):

- Stretched social relations: globalization stretches cultural, social, economic and political processes in societies across the globe. These stretching social relations connect people to become interdependent within a wider networked world to the extent that individual change may have global consequences. The illustrations can be shown in the cases of the changes of interest rate policy taken by the Federal

Reserve in the US and the terrorists' attack on the World Trade Center in New York on 11 September 2001.

- Intensification of flows: it intensifies transnational interaction as flows of communications, technologies, culture, trade, investment and migration grow at a global scale.
- Increasing inter-penetration: The stretched social relations convey an extensive inter-penetration of economic and social practices. It brings distant societies and cultures to an approachable extent both at local and global levels.
- Global infrastructure: Information and communications technologies provide the infrastructure of interaction underpinning the growth of the global market which significantly challenges the sovereignty of nation states. The existence of global markets means corporations, countries, people, labor and capital all have to obey the rules governed by global or transnational institutions.

Based on this supra-territorial nature, globalization is distinct from internationalization and is mutually replaceable only under certain circumstances. In contrast to globalization as a transnational phenomenon, internationalization should be understood in a context of nation-state systems. It represents intensifying connections between nation states. As a consequence, countries may affect each other in a wide-ranging and deep manner, but they remain individual and separate domains which are divided by respective territories. Scholte (1999a: 15) puts the difference between the two as 'the international realm is a patchwork of bordered countries, while the global sphere is a web of transborder networks. Whereas international links require people to cross considerable distances in comparatively long time intervals, global connections are effectively distanceless and instantaneous.'

The dominance of globalization has been aided and promoted by, first, the innovations and advances in transportation, information and communications technologies; second, by some

international institutions such as the General Agreement on Tariff and Trade (GATT) and WTO pushing global economic liberalization; third, by the growing worldwide consensus about achieving economic success through market incentives (Rajan, 2001: 1-11). Some critics (Hirst, 1997: 409-425; Hirst & Thompson, 2000: 19-61; Thompson, 2000: 94-109; Weiss, 1997: 3-37) argue that, when examining the period of the gold standard prior to 1914, the extent of contemporary globalization should not be considered unprecedented. In terms of trade, financial openness and overseas investment as a proportion of GDP, the level of the pre-1914 period in the gold standard system are not exceeded until the mid-1990s. Thus, globalization is not a new phenomenon, it is, as the European Commission (1997: 45) states, “. . . the continuation of developments that have been in train for some considerable time”. Nation states have never been capable of isolating themselves from the external environment, but it is also true that the present world is not as fully integrated and liberal as some globalists claim.

However, the comparison should not be merely a quantitative measure; rather, the supra-territorial and instantaneous nature of contemporary globalization marks a qualitative shift from traditionally defined international interdependence toward a transworld movement. Due to limitations of technological capabilities, those kinds of transactions in the gold standard period were more restricted than the level they have reached today. In terms of the extensiveness, intensity, velocity and instantaneity, the contemporary globalization is unprecedented—it is broader, and deeper than it was a century ago. Furthermore, even in terms of quantity, at least in aggregate terms, the contemporary globalization also reaches higher levels of trade than ever before (Kobrin, 1999: 146-148; Scholte, 1999b: 430-435).

B. Economic Globalization

One distinct feature of the contemporary globalization can be

expressed by an increasingly integrated economy. The European Commission (1997: 45) defines globalization purely in a more economic sense:

Globalization can be defined as the process by which markets and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital and technology.

Trade, therefore as an exchange of cross-border merchandise and services between nation states, is indicative of the economic globalization tendency. Nowadays, all countries are involved in international trade, which generally accounts for a significant proportion of a given country's national income. About one-fifth of world output is traded and a much bigger proportion is under the international competition (Held & McGrew, 1998: 227-232). Two developments of the global economy contribute considerably to contemporary trading growth. One is the increasing significance of transnational production and the other is the advent of global goods.

In respect to transnational production, it occurs when a single production line widely crosses dispersed locations, both between and within countries. Through global outsourcing, on the one hand, corporations acquire raw materials, components, machinery, finance and services across the world. The global logistic chain, on the other, manages different productive procedures, from research and development, product design, material processing, manufacturing, assembling, to quality control, advertising, marketing and after-sale services; thus all services are integrated into a single, global production line. In such global factories, no country hosts all stages of production, and each country in this global logistic chain specializes in only one or a few functions so that economies of scale and cost differentials are achieved. Facilitated by the existence of worldwide transport and communications infrastructures, distances and national borders

only serve as a secondary consideration in strategic business production for which maximizing profit is the primary concern. In this vein, companies may relocate any stage of production anytime in order to search for the most cost-effective sites, as NIKE, a well-known sporting goods manufacturer has made clear (Scholte, 1999b: 435-436).

The internationalization of production did not appear until the 1940s, and has become prominent in the period after the 1960s. Due to the increase of transnational production, a large part of international trade is engaged in intra-firm trade within transnational companies. This is because when intermediate and finished goods are transferred from one country to another country, they are counted as international trade for nation states, but for those transnational companies, they are only movements within firms as components of their global production chain. Although official figures about the volume of intra-firm trade are not available because of the limitations of the conventional statistical measure, it is estimated that such intra-firm trade accounts for at least 25 per cent to over 40 per cent of total world trade (Scholte, 1999b: 435-436). If only observing national trade with overseas affiliates, it is more evident in the case of the US. In terms of American exports to and imports from overseas American-owned affiliates, a large percentage of total trade (85 per cent) was counted as intra-firm trade in 1995 (see Table 1).

Table 1 American exports to and imports from American-owned affiliates abroad, 1995 (\$bn)

	Intra-company	Inter-company	Total
All countries			
Exports	145.5	24.5	170.
Imports	123.9	19.4	143.3
Balance	21.6	5.1	26.7

Source: *The Economist*. A survey of globalization. September 29-October 5 2001, p.9

The other stimulus to global trade in economic globalization is the advent of global products. As the pattern of contemporary production has globalized and the world trade system, promoted by international organizations such as, formerly the GATT and later, the WTO, has become more liberal and open, and, national markets increasingly intermeshed with one another. Those developments catalyze the supra-territorial market on the one hand, and reinforce the global competition transcending national economies on the other. Business encounters not only international competition in the global marketplace but also competes with its foreign counterparts in its own domestic market. Because of the gradual formatting of transnational market and production, global goods emerge within this context (Held and McGrew, 1998: 227-232; Scholte, 1999b: 435-436).

Therefore, a significant part of international trade is related to the sales and distribution of these global goods. People in all parts of the world can and do consume the same goods at the same time. The location of consuming countries is now less restricted and relevant than are design, packaging and advertising, which actually dominate international markets. The advent of global goods is by no means a new product of the contemporary globalization, for example, Campbell Soup and Heinz already became a worldwide-selling product as early as in the mid-1880s; Coca-Cola was consumed in 78 countries in 1929. However, in terms of the types of goods being consumed, the number of consumers and the countries that have become involved, the contemporary level is relatively higher and more inclusive than in previous eras (Scholte, 1999b: 436-437).

Global trade today, as a result, is enhanced and penetrates into the underpinning of people's daily life by the internationalization of production and the pervasion of global goods.

C. Financial Globalization

While scholars continue to debate the level of globalization

within the contemporary world economy, the power of financial globalization is indisputable. It is this that is broadly regarded as an illustrative symbol of contemporary globalization. The volume of explosive financial transactions facilitated by the liberation of capital movement control in a number of developed countries since the 1980s has reached a level which dwarfs that of world trade in goods and services. The volume of the London Eurodollar market and of foreign exchange transactions in the world's primary financial centers is at least 25 times and 12 times that of the world trade, respectively (Jones, 2000: 92-97; Tooze, 1999: 223-224; Weiss, 1997: 12-13). The extent of financial globalization can be observed in the following four aspects: the supra-territoriality of money, banking, securities and derivatives.

With regard to supra-territorial money, the development of global production and markets have both stimulated and been underpinned by the spread of global currencies. The fixed and floating exchanges regimes that are managed by the IMF have allowed a number of national currencies to be exchanged for worldwide use. To this point, the US dollar is the most globally used currency. It is estimated that the amount of dollars circulating outside the U.S. is as much as inside. Facilitated by the advance of information and communications technologies, the business of foreign exchange now operates supra-territorially in a round-the-clock, round-the-world market that requires no central meeting place where transfers of exchanges rates can be carried out instantaneously and simultaneously on computer monitors across worldwide dealing rooms. The denominations of Special Drawing Rights (SDR) issued by the IMF since 1968, the advent of credit cards, and smart cards can all complete purchases worldwide regardless of the local denomination.. Contemporary globalization has thus transformed the feature of money—it is no longer limited to borders of nation states as it was in the period from the 19th century to the mid-20th century (Scholte, 1999b: 437-441).

In respect to supra-territorial banking, globalization takes place in areas of growth for transnational deposits and bank

lending, the expansion of branch networks and the advent of instantaneous worldwide inter-bank fund transfers. Transborder bank deposits and lending are mainly derived from the development of eurocurrencies. Deposits and loans of eurocurrencies are denominated in a national money which is different from the official currency in the country where assets are held. Eurocurrencies are not related to the money supply of nation states; similarly, they are not regulated by national central banks. A loan can be issued in one country, denominated in the currency of a second country to a borrower in a third country by a bank or syndicate of banks in a fourth or more countries. Through the mechanism of electronic messages such as the Society for Worldwide Interbank Financial Telecommunications (SWIFT), which substitutes conventional territorial measures by check or draft, those inter-bank funds transfer instantaneously in worldwide branch networks across major financial centers (Scholte, 1999b: 437-441).

In terms of supra-territorial securities, since the emergence of the eurobond in 1963, there has been an increasing tendency in global finance that more and more bonds and equities are issued in a trans-border manner, in which the issuers, currencies, brokers and stock exchanges involved are spread across various countries at the same time. Such trans-border financial products are different from foreign bonds, which are dealt in one country for external borrowers and have existed for several hundred years.

This territory-detaching pattern can also apply both in the issuing business and the operations of investor portfolios. A syndicate of brokers can sell new equities for simultaneous listing on stock exchanges in several countries, while an investor in one country may turn its assets over to a fund manager in a second country who, in turn, positions the sum into markets for a third country. Because of this close inter-linkage between main securities markets, when the 'Black Monday' of the Wall Street crashed on 19 October 1987, it immediately triggered worldwide echoes in other stock markets within hours (Jones, 2000: 67-69; Scholte,

1999b: 439-440).

In the derivatives industry, since 1982, when public derivatives exchanges began proliferating worldwide with even larger over-counter-markets, the volume of trading in world derivatives markets has reached 1.2 trillion dollars per working day, whereas the value of derivatives contracts, over 50 trillion dollars, are more than twice the level of world GDP. A growing number of derivatives contracts now relate to world indicators like the world price of copper; the interest rates on eurodollar deposits carrying out through telecommunications links on several exchanges at the same time. The mighty power of this highly interconnected global derivatives market can be illustrated by the latest case of how a futures trader in Singapore, Nick Leeson, destabilized the world financial system and caused the collapse of the age-old Barings investment bank in 1995 with a 1.3 billion dollars deficit (Scholte, 1999b: 440-441).

D. National Autonomy in a Globalization Era

Just as contemporary globalization has profoundly transformed the nature of the world economy, so has it changed the landscape of national economies. The web of interconnectedness and interdependence between national economies, both in trading and financial terms, link external shocks and domestic events on an unprecedented global level. Apart from the two examples mentioned above, more representative illustrations are the 1992 crises of European currencies and the 1997-98 financial crises in Asia. The former forced the UK's sterling and Italy's lira to leave the ERM and severely challenged the maintenance of the ERM system. The latter in turn spread out into Latin America in the beginning of 1999 and then into the Russian economy later in the same year, which highlighted the interconnectedness of the global economy even when direct trade and investment linkages are minimal. The deep recession in the Asian economies caused a direct impact on the UK economy by immediately reducing its

growth by 1.75 per cent in 1998 and widening the UK trade in goods deficit due to the falling exports to Asia (HM Treasury, 2002: 301). The UK's Chancellor of Exchequer, Gordon Brown, described the aftermath of the Asian financial crises in his pre-budget report as "...the global downturn which started in Asia...has reverberated throughout every continent" (Thompson, 2000: 87).

In a world of global economy and finance, the monetary and economic governance of nation states, is undoubtedly being challenged. Adopting different approaches to interpreting contemporary globalization, globalists and traditionalists provide divergent views on this issue.

According to the arguments of globalists, as capitalism has evolved more globally, even the most powerful countries like the US are enmeshed in the imperatives of the global market. The hegemony of global capital and the economic consolidation over the last decades forms a new global capital order and the existence of the US as the world's only superpower is the expression of this new form. Under this view, nation states are perceived to become local authorities, more like municipalities, of the global system. They are not capable of affecting their domestic economies independently; in contrast, internationally mobile capital decides their fate. The transnational forces of the elite, corporate and bureaucratic emerging as players in the infrastructure of global governance account for the reproduction and expansion of global capitalism. The role of nation states, as globalists claim, is to provide the infrastructure and public goods at the lowest cost for transnational corporations (McGrew, 2000: 153).

In contrast, traditionalists emphasize the hegemonic governance of nation states. They argue that it is dominant powers like the US within the hierarchical inter-state system which define, shape and determine the structures, patterns and outcomes of global governance. The process and operation of globalization are not beyond the control of nation states, rather, they are products of the US-encouraged liberal system to expand liberal capitalism,

culture and politics of the US model (McGrew, 2000: 153). Hirst (1997: 420-423), Weiss (1997: 9-10), Holton (1998: 92-102), and Hirst & Thompson (2000: 66-96) all argue that, in terms of limited labor mobility and MNEs' behaviors such as investment, sale, and asset distribution, nation states still retain power over their territory and matter not only to the vast majority of people but also to MNEs even in this era of globalization.

While globalists and traditionalists significantly diverge about the extent to which state governance is effectively circumscribed and to which level national economic sovereignty is still retained within a globalized world, some commentators' observations are appropriate. Sandel (1996: 339) states that nation states now "find themselves increasingly unable to bring their citizens' judgments and values to bear on the economic forces that govern their destinies". Agnew and Corbridge (1995: 177-178) assert that, under globalization, people "live in a world in which the markets can defeat even the most concerted efforts by a government, or even groups of governments, to defend particular national exchange rates and interest rates." Moreover, the divergence between globalists and traditionalists cannot be regarded as the essentially basic difference within this issue, rather, it is a relative difference of degree, for even traditionalist can not deny the fact that the economic sovereignty of nation states is being challenged by globalization.

As globalization is not an equally dispersed process among countries, the impact on the national autonomy and domestic economies is thus correspondingly not equally diffused. The diffusion is dependent on the extent of an individual national economy's exposure to external environment. The UK is one of the world's most open and liberal economies; it has the world's highest ratio of inward FDI in gross domestic fixed capital formation, its gross external assets and liabilities more than twice the gross national product, and the investment of its internationalized financial system alone is almost equivalent to the whole country's GDP: an only 5 per cent shift of sterling would negate the UK

foreign exchange reserves. Thus, the UK is heavily integrated into the global economy and financial system and thus more vulnerable to any changes in it.

The globalization strangleholds economic and monetary sovereignty of national states appears in both macroeconomic and microeconomic terms.

In macroeconomic terms, the current possibility of Keynesian strategies to counter cyclical economy between the boom and slump period is now less prevalent than fifty years ago. The failure of the ambitious reflationary program of the Mitterand Socialist government in France in 1981-83 illustrates that the power of governments to manage national economies is subject to mobile capital and the international financial markets. Contemporary financial globalization has changed the costs and benefits in relation to different national macroeconomic policy options and, at the same time, has set up new rules for nation states. That is, any pursuit of expansionary demand management without considering the consequences of exchange rate markets will be punitively expensive. Secondly, the increasing mobility of capital has made it harder for most governments to maintain the stable value of national currencies for business, as speculative flows can cause immediate and dramatic domestic economic consequences as the 1997 East Asian currency turmoil shows (Strange, 1999: 137-138).

Thirdly, as the internationalization of production and the significance of MNEs in the world output and trade increase, the national autonomy of domestic tax affairs is also effectively circumscribed for any heavy tax regime, as it will consequently cause capital to flee out of a host country to tax havens. It can be argued that, based on this consideration, more and more governments in developed countries in the 1990s choose to resort to public debt rather than raising tax as a means of financing their spending (Ibid.). Moreover, Strange (1997: 138), Koutrakou & Luckhurst (2001: 4-5) all point out that the incomparably strong capability to contribute to nation states' revenue allows MNEs to negotiate favorable tax reductions as well as require the relaxation of

employee wage-protection measures with, and seek subsidies from governments of host countries in return for inward investment.

The problems of state autonomy occur equally in microeconomic management. Industrial and competition policies, which are ways that national governments manage businesses, both domestic and foreign, operating within their territories, are considerably limited by the advance and innovation of technologies in the globalization era.³ First, technologies are changing so rapidly and unpredictably that even competent and well-informed officials find it difficult to direct, monitor and control industrial developments (Strange, 1999: 139). Secondly, Kobrin (1999: 149-157) further argues that due to the cost, risk and pace of technology in several strategic industries such as telecommunications, pharmaceuticals, semiconductors and aerospace, complex transnational inter-firm partnerships are required to amortize the huge fixed costs of research and development spending. It is, as a result, harder for national governments to 'pick winners' on a national basis when industrial policies are made. Moreover, Kobrin (1999: 155-157) even suggests that if software is imported as bits, which can be transmitted electronically through satellite or the internet, rather than as atoms, the form of tangible materials, which must cross physical borders and tariffs controlled by political authorities, then state governance becomes problematic. The Indian software industry exemplifies how Indian programmers physically situated in India work directly on the client's host computers wherever it is located through satellite linkage. The more business evolves

³ Here, Linda Weiss (1997) has a different point of view. She contends that national economic sovereignty over macroeconomic affairs is undoubtedly constrained by globalization, however, in the microeconomic area especially in industrial policy, this is less clear. Nation states' governance, she argue, is still salient and can even be a condition and facilitator of globalization if domestically strong states are able to adapt and assist businesses to respond to external environment by creating corresponding policy tools and internationalizing state capabilities. The experience of Japan, Singapore, South Korea and Taiwan are the examples she raises.

digitally, the more state autonomy and decision-making power have to compromise with an electronically networked global economy.

It is true that trans-territoriality of the contemporary commerce should not be overestimated. While internationalization of production affects a significant proportion of certain industries, it does not equally affect all sectors, businesses and individuals, and neither is it in the mainstream of the worldwide production pattern, in fact, it still accounts for a relatively small part of the overall world production. It is also true that a number of financial activities like retail banking are still restricted to national boundaries, which is accompanied by the fact that a large part of turnover of most stock exchanges concentrates on shares of corporations originally from the same country. Neither, can it be denied that while economy and finance may be global, public power still operates at the national and local levels. States remain responsible for providing their citizens and businesses with welfare, basic social and physical infrastructure and ensuring the sustainability of economies (Scholte, 1999b: 443-444).

However, the importance of globalization does not lie in the fact that it eradicates sovereignty and dissolves, nation states, heralding, as one globalist once claimed, "the end of geography" (O'Brien, 1992: 2). Rather, it marks the end of an era which nation states exclusively monopolize territoriality. Nation states now have to exist and evolve along with the global dimension of world commerce. In terms of being effective administrations states are not eclipsed, but their power, authority and relations are reconfigured and repositioned within a complex multi-layered system of regional and global governance under the impact of globalization (Held & McGrew, 1998: 235-243; Hirst & Thompson, 2000: 268-275; Kobrin, 1999: 161-163; McGrew, 2000: 142-143). Within the context of globalization, the next section in turn will discuss the EMU as a means of realization of regionalization in Europe and as a regional response to globalization will increase or decrease the capability of state governance.

III. The Implications of EMU Membership for the UK State Governance

Alongside a number of the benefits created by the realization of the EMU, for example, the increase in trade and investment, and enhancement of resource efficiency and therefore productivity and income level, the foremost cost for any participating country is the renunciation of national economic sovereignty, in monetary affairs and in the fiscal area. For a country which historically has guarded its its sovereign independence such as the UK, this controversy is perhaps the most unattractive part of EMU membership. This section will first explore whether or not the EMU as a form of regionalization will deprive member states of their national sovereignty based on empirical evidence from a globalization viewpoint ; followed by the second part which will discuss how national sovereignty will be affected in the case of the UK, within the framework of the EMU. The final two parts will then turn to the discussions of the UK current state governance in economic affairs and examine its convergence and divergence with the operation of the EMU.

A. The EMU as a Promoter or Demoter to National Sovereignty?

For a conventional Westphalian nation state with exclusive and absolute sovereignty over its domain, any participation in supranational organizations and institutions like the EU, undoubtedly, represents a pooling out of its sovereignty to a greater or lesser extent. As seen in the discussion above, the deepening and broadening of globalization which occurred in the late 20th century, challenges and transforms the concept of national sovereignty. Nation states are now sandwiched between a multi-layered system in which global and regional bodies are above and the sub-national layer, such as local authorities are below. Just as national sovereignty is divisible upward into international and

regional agencies and downward to local state power in the contemporary globalization era, effective state governance is no longer achievable at the individual nation level. The worldwide financial crises triggered by the East Asian currency crises in 1997-98 show how vulnerable and incompetent nation states are when facing the mighty power of financial speculation. To this point, a number of critics (Hirst, 1997: 424-425; Kobrin, 1999: 162-163; Koutrakou & Luckhurst, 2001: 10-12; Strange, 1999: 137) propose that an effective action to control national economies requires cooperation and coordination among states, and stable state management now can only be attained at the global and regional level.

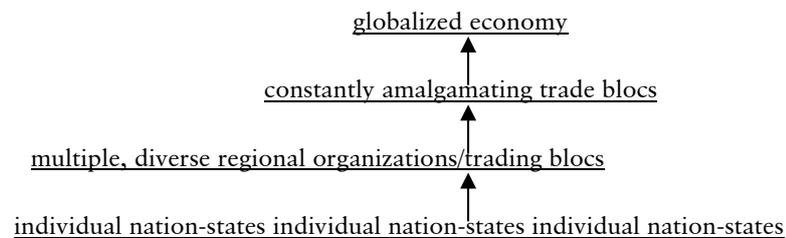
By concerted action, globalists and traditionalists both agree that states can bargain, defend and even increase their interests through the collective strength provided by the mechanisms of global and regional bodies. The examples of trade openness, common economic standards, multilateral exchange rate control and the levied international tax on short-term capital which were set up and implemented either by the WTO or the EU express the efficacy of such global and regional economic management strategies. Hirst & Thompson (2000: 254-255) further argue that as the world political economy is unequally dominated by the three main trading blocs, the so-called triad: the EU, North America (NAFTA) and East Asia (mainly in Japan) which together account for two-thirds of world trade, the existence of these three regional trading blocs offers their member states additional influence over the competition between inter-bloc countries and indirect power to intervene and re-regulate the world political and economic order within this triad system.

The EU, as a more advanced supranational institution than any other existing regional and international body, has an even stronger role in defending and enhancing the sovereignty of member states. Through participation in the European integration, states are not necessarily weakened; instead, they are strengthened in some aspects. On the one hand, member state governance is

more effective by the collective power of the Union to stabilize the external economic environment caused by the detrimental effects of globalization, this will in turn further allow states to pursue national policies. On the other hand, states are more capable of negotiating, defending and increasing individual national interests through the greater bargaining power endowed by their collectivity. France's success in resisting the penetration of the US film industry, which was expected to harm to French domestically produced films, was achieved by the trade negotiations of the EU in the Uruguay round.

Koutrakou & Luckhurst (2001: 8) use the model of the 'Christmas tree' to analyze how state sovereignty is first extracted by globalization and then regained by participation in regional organizations. According to the arguments of globalists, for countries facing globalization's challenge to effective state governance, when accommodating themselves into the integrated world economy system, their sovereignty is confined to the globalized economy through regional trading blocs; on paper the relationship resembles a "bottom-up Christmas tree" as Figure 1 shows.

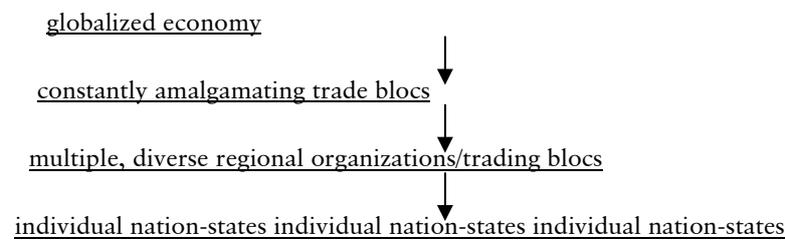
Figure 1 "Bottom-up Christmas tree" model of global governance



They further argue that, due to a number of operational problems such as a lack of agreement on standards, funding, legal mechanism, its bulk and the diversity of member states' interest, international organizations like the WTO, in practice, are more

restrictive and less capable of providing effective governance when encountered with the challenges created by globalization. On the other hand, a more well-designed and functional mechanism existing on the level of regional trading blocs like the EU are competent to play a stronger role in buffering and settling the difficulties faced by member states through relatively more concerted actions and greater cohesion. As a result, for nation states especially for smaller ones, the function of regional organizations like the EU seems to be a practical, effective and required alternative to defend national well-being from the detrimental aspects of globalization. Paradoxically, on the face of it, nation states have to pool out a certain degree of sovereignty in order to aggregate enough strength to effectively respond to and govern external challenges. In effect, through a process of pooling to facilitate the operation of regional collectivity, the sovereignty of member states, which were once circumscribed by powerful economic and financial globalization, is recovered, and even enhanced as Lintner (1994: 16) argues. This recovering process of national sovereignty from globalization can be pictured as Figure 2 shows.

Figure 2 “Top-down Christmas tree” model of global governance



In this vein, the EMU and other forms of European integration do not necessarily imply the loss of sovereignty, instead, they can defend and increase the real capability of state governance, especially for smaller countries. By banding together, states can

increase their national weight and influence in the world economy and politics. To that extent, euro membership can be regarded as a promoter rather than a demoter of sovereignty of nation states in this globalized era.

These arguments for EMU membership as being capable of enhancing economic governance are further verified by empirical evidence available from some member states in the first four years of the EMU. Mayes and Suvanto (2002: 175-180), two economists at the Bank of Finland, Finland's central bank, provide evidence that over the period from 1995 to 2000, Finland experienced a rapid economic growth of about 5 per cent on average, of which the Information and Communication Technology (ICT) sector accounted for 2 per cent, with mobile telecommunications as the main driving force. This ICT boom had an even more striking effects on exports, from which the exchange rate was reflected. Thank to ERM (the forerunner of EMU) and EMU membership, as they contend, Finland was able to avoid a strong appreciation of its currency, the markka, against the euro as well as the higher interest rates during the period 1999-2000 while enjoying a substantial account surplus and stable growth path. Similarly, when the prospects of the ICT sector were written down by financial markets, which subsequently caused a decline in the share price of Nokia, Finland's biggest ICT company, in 2001, Finland was free from sharp effective depreciation of the markka. If it were not within the EMU, the country would have suffered from speculations from global financial markets as some Asian countries experienced in 1997. EMU membership has changed the behaviour patterns in Finland that accounts for the observed stable development and consequently, has stabilized the growth of domestic demand and inflation.

By contrast, Sweden, one of three non-EMU EU countries, experienced a contrasting case, reflected in the substantial volatility of exchange rates, when facing a similar shock. As in Finland, the ICT sector in Sweden also has a significant impact on total exports and the economy. However, being outside the EMU, the Krona,

Sweden's currency, appreciated effectively in 1999 and early 2000 against the euro when the ICT boom emerged, as the share price of Ericsson, the biggest Swedish ICT company, while depreciating at the same time as Ericsson's share prices. The depreciation impacted inflation immediately as growth slowed down. The fact that Sweden was the first OECD country to raise interest rates after the September 11 event reveals that stabilizing the economy through the monetary policy of an individual country is not an easy task in this globalization era. Mayes and Suvanto therefore comment on the effects of EMU membership on economic governance as follows:

it is fair to conclude that the membership in the EMU has stabilized the Finnish economy in the face of a favourable asymmetric shock, at least compared to a (counterfactual) situation where the country would have faced a similar shock with its own currency, old institutions and old behavioural patterns. (2002: 176)

Evidence from other EMU countries also supports the positive implications of EMU membership for economic governance. The empirical study from Fitz Gerald (2001: 1361) proves that Italy, Spain and Ireland benefited from EMU membership as predicted credibility and the fall in risk premiums on interest rates allowed a greater degree of flexibility for these governments to adjust and implement their fiscal programs. Moreover, this reduction in interest rates was able to raise the optimal long-term capital stocks for these countries, and, as a result, will have a positive impact on growth rates.

Hutchison (2002: 365-389) further draws attention to the relationship between financial stability and the EMU. He examines a number of banking sector crises for a large sample of countries and uses economic models to link the likelihood of banking problems with a set of macroeconomic variables and institutional characteristics. His empirical results suggest that the institutional characteristics of financial markets and the regulatory environment

in the EMU, such as accounting standard, information disclosure and the removal of exchange rate volatility between member states etc., indicate very low risk of serious banking distress. With the reduction in macroeconomic risks and instability, he concludes that member states are unlikely to experience a major banking distress/crisis in the EMU.

It cannot be denied that EMU membership unavoidably requires member states to cede their economic sovereignty to a considerable extent and the loss of a monetary policy instrument reduces a country's capability to respond to adverse asymmetric shocks. However, these constraints imposed by EMU membership on economic governance are not unmanageable. As the empirical evidence from Finland and Ireland indicates, member states of the EMU still have the ability to use fiscal policy to manage purely national economic problems. Finland's creation of buffer funds, the so-called EMU-buffers, for the employment pension system and unemployment insurance, and the Irish government's sound public finances exemplify that national governments are able to exercise a countercyclical fiscal policy in the face of external shocks. The former has been proved to be effective in accommodating adverse asymmetric shocks for the Finish economy in 2001, while the latter contributed to the successful exertion of fiscal measures to curb excess demand in domestic labor and housing markets for the Irish economy (Mayes & Suvanto, 2002: 173-175; Gerald, 2001: 1368). As the OECD Economic Surveys: Euro Area comments, the mildly expansionary fiscal stance in the EMU since 2000 in part reflects that some countries 'had achieved sufficient room for maneuver' (OECD, 2003: 10-11).

Since the economic size and nature of individual member states differ from one to another, the extent of sovereignty loss caused by EMU membership can not, and should not, be generalized. It varies according to a number of factors and is subject to the differential extent that countries are exposed to the impact of globalization. This issue will be addressed in the following section.

B. The Losses of Economic Sovereignty within the EMU—the Case of the UK

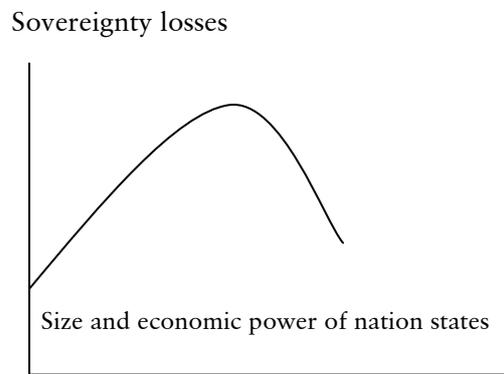
Just as the richness and limitations of natural endowment confers uneven political, economic and military power to nation states, the extent and ability to assert individual national autonomy and sovereignty for each country is consequently different as well. Lintner (1994: 17-18) provides four indicators to observe the degree that autonomy of nation states will be constrained and how they will encounter the loss of sovereignty within the EMU.

(A) The size of the country and the extent of its economic strength

It is logical that the bigger the country is, the more economic weight it holds, as a result, it is likely that the more ability it has in the face of external parameters. Conversely, the smaller a country is, the less economic significance it holds and thus the less control it will have over external changes. Theoretically, it represents a positive relationship between the size of a country, which symbolizes the extent of its economic strength, and the degree of national autonomy and sovereignty that states hold. However, in contrast, the loss of sovereignty for a nation state, does not exemplify a commensurate decline in economic strength. For smaller countries, the euro membership should not be excessively costly, since a great part of their economic sovereignty is already subject to external changes. Therefore, Lintner argues that smaller EU countries have never had illusions about the extent of their economic sovereignty. Interestingly, in the cases of bigger countries, by holding greater economic sovereignty, they are not biggest losers. On the contrary, as economic strength naturally enhances the inclination of economic self-determination, it also endows leadership, so that bigger countries can impose their policy preferences on other member states and even sometimes, effectively render themselves immune to the losses of sovereignty in some specific aspects of the process of monetary integration, as

in the case of Germany in the ERM. Paradoxically, it is, the medium-sized countries such as the UK and France which will encounter the most losses of economic sovereignty under the EMU (see Figure 3).

Figure 3 The relationship between sovereignty losses and size and economic power of nation states



Source: Lintner (1994: 17)

(B) The nature of the policy area involved

Lintner further argues that policies that are more macroeconomic in nature endure less sovereignty losses, while those that are more microeconomic will suffer more losses in their decision-making power. Within a globalized economy and financial system, macroeconomic policies like attempts to control inflation, unemployment and growth by monetary and fiscal policies are already restrained by external parameters. Some critics are even doubtful whether the economic sovereignty of nation states is a reality for those countries with deregulated markets of capital and foreign exchange. Therefore, the losses of macroeconomic sovereignty will not be as significant as it looks superficially. On the contrary, in the area of microeconomic policies such as regional, industrial and local economic development policies,

nation states usually have more freedom to maneuver and enjoy a larger scope of action at the national level. As a consequence, the losses of economic sovereignty in this aspect will be more closely related to those of macroeconomic policies. Lintner suggests that there is an inverse relationship between the size of geographical area and the ability of national and regional authorities in the face of the same policy impact. In other words, the bigger the geographical area, the greater the policy impact it will have, and accordingly, it would then be less likely that national and regional authorities are able to preserve their autonomy.

(C) The time table involved

The ability of individual nation states to pursue an independent macroeconomic policy decreases with time. That is, the shorter the time-scale is involved, the more likely that nation states are capable of pursuing and carrying out independent macroeconomic policies. Conversely, the longer the time takes, the less the ability of nation states will be to achieve their isolated individual policy objectives. In other words, from a short-term perspective, the loss of economic sovereignty for nation states is more striking than it will be when observed over the longer term.

(D) The extent to which policies are consistent with those pursued elsewhere

A country within an economic and monetary union cannot pursue a policy designed to reduce inflation while its partner country implements another policy preference in an opposite direction. Neither can it be viable that an individual member state successfully carries out its preferred policies which are at odds with the prevailing ideological climate in the process of monetary integration. As the common monetary policy of the EMU operates at a union rather than national level and is required to conduct appropriate macroeconomic policies for the whole union, it may be inappropriate for the individual country. To those whose objectives of national economic policies are divergent from the

core purposes of the economic and monetary union, the losses of economic sovereignty will be much greater relative to those whose views are consistent with most member states.

Now, apply these four criteria to the case of the UK. According to the first three indicators, as a medium-sized country, it is reasonable to predict that, in the short run, the losses of economic sovereignty, particularly in microeconomic areas, for the UK, will be greatest when compared to other smaller or larger partner countries. As to the fourth standard concerning the consistency of UK policies *visa vis* the core objectives pursued by the EMU, this will be separately discussed in the following part.

Taylor (1994: 54-55) further adds the degree of exposure to the free trade and liberal international financial markets as an indicator. He argues that since the UK turned to a free floating exchange rate after the collapse of the Bretton Woods system and abolished exchange control in 1979, sterling has been highly exposed to market forces and is closely linked to any signals from international markets. Therefore, any changes in the interest rates of the world's main currencies, both European currencies and the U.S. dollar, will continue to impose limitations on UK policy freedom. In this vein, the UK, unlike other EMU member states which used to prefer targeting the deutschmark and accommodating Germany's economic policies in the ERM system, will encounter the greatest losses of economic sovereignty. This primarily results from the fact that its autonomy of policy choices is still retained independently to a limited, but significant extent by the UK government, and is determined by variables of international markets and is less circumscribed to a single body, like that of Germany's central bank, the Bundesbank, or economic policies conducting by an anchor country.

In Taylor's assessment (1994: 54-55), a country which sacrifices even more economic sovereignty than the UK is Germany. This is because the Bundesbank, is no longer able to unilaterally set favorable interest rates for its own national needs but, in effect, its decisions are dependent on the situation in the ERM. Instead, it

has to take mandates from the ECB, whose decision-making power is equally shared by each member state. For those member states whose economic autonomy is already influenced and limited by Germany, the losses of their economic sovereignty within the EMU are not so unbearable and radical since they simply represent a transfer from one body, the Bundesbank, to another body, the ECB. Even, their economic sovereignty can be expected to improve since the ECB devotes itself to promoting the joint interests of all member states unlike in the past, when they had little influence over the Bundesbank which actually imposed its policy preferences upon them.

These indicators are instrumental for providing us a referential picture when evaluating the UK's sovereignty loss within the EMU. However, they cannot fully reflect a change which has occurred in economic policy-making—the paradigm shift from discretionary monetary and fiscal policies aimed at fine tuning the economy to a rule-guided regime. Over the past 20 years, both the economics profession and policy-makers in advanced industrial countries have gradually learned that discretionary economic policy has seldom worked well and have become increasingly disenchanted with an active stabilization policy. This is in part due to the growing effects of economic and financial globalization and also a discretionary policy which has been proved to be counterproductive in the medium term. A commitment to rule-based regime is commonly recognized to be an important support for a more stable macroeconomic environment (Barrell & Weale, 2003: 133).

The new fiscal and monetary frameworks introduced by the UK New Labour government since it came to power in 1997 are the product of such an evolving thinking. The new regime is designed to avoid the disadvantages associated with an activist monetary and fiscal policy. The exchange rate is no longer employed as a policy instrument, but rather seen as an outcome of the interaction between fiscal policy and inflation-targeting monetary policy. This changing thinking in economic

policy-making has a significant implication for assessing the UK's sovereignty loss in relation to the EMU. It indicates that joining the EMU for the UK does not mean the loss of control over the exchange rate as a tool of current policy because it is not a tool being utilized in the current UK governance (Barrell, 2002: 54-55).

The losses of economic sovereignty by EMU membership for the UK, indeed, are significant as Linter and Taylor argue, however, as the effects of globalization have dearly imposed constraints on national autonomy, especially in macroeconomic management, how independent and unconstrained the UK's economic governance could be even outside the EMU is debateable. The Finnish government, in its official assessment of EMU entry, believes that similar monetary and fiscal discipline and the sort of changes that are necessary inside the EMU would be required anyway, because these requirements are broadly accepted both by policy-makers and liberal international financial markets as essential to good economic governance. Moreover, this official report also points out that the freedom of economic policy-making for a non-EMU country that maintains a close trading relationship with the EMU, as in the case of the UK, is limited. The interconnection and interdependence in economic activities between them would make such a country not able to run a divergent economic policy from that of its major trading partners (Mayes & Suvanto, 2002: 172-173).

On the balance, the criteria by the size of a country and its economy, the nature of policy, and time scale involved predict that the UK would encounter great losses of economic sovereignty if it joined in the EMU. However, the so-called 'great' losses have to be addressed with caution. Discussions above suggest that the applicability of these three criteria to deliver a fair and adequate evaluation, to a larger extent, depends on another more important variable—the extent of convergence/divergence of the UK's current economic governance with that of the EMU. The more convergent with the EMU, the less these losses of economic sovereignty would imply for the UK, and vice versa. These are the concerns that we

turn to in the next section.

C. The Convergence/Divergence of UK Economic Governance with the EMU

One of the features of the UK economy in the past 30 years has been its poor record on inflation.⁴ Inflation has not only been high but also volatile. The UK holds the second highest average inflation rate among the G7 countries, and has with the third largest volatile inflation record during the period of 1980-1997. A main reason for explaining the UK's poor inflation record in the past is that maintaining price stability was not the emphasis of its monetary policy. It was presumed that tolerating higher inflation could bring higher growth and employment this idea is theoretically supported by the Phillips curve, which points out that there is an inverse relationship between wage increases and unemployment. As a result, policy-makers attempted to stimulate domestic demand by manipulating monetary and fiscal policies to lower unemployment at the expense of inflation. After experimenting for decades, it has already been proven that growth and employment cannot simply be achieved by manipulating inflation; although in the short term this trade-off is possible, this policy can be harmful over the long term (HM Treasury, 2002: 58-70).

When Labour came to power in May 1997 after 18 years in opposition, it re-branded itself as 'New Labour' with the notable emphasis on its 'Third Way' thinking. With respect to economic management, New Labour embraced the strong globalization argument and recognized its constraints for economic governance. As Giddens (1998: 20-23, 28-33; 2000: 27-28, 32-33) and Blair (1996:118-119) both argue, the phenomenon of globalization is so predominant that it changes the landscape of the economy and

⁴ Annual inflation averaged 13 per cent during the 1970s, averaged 7 per cent during the 1980s and peaked again at more than 9 per cent in the early 1990s. For more statistics, see HM Treasury, *Reforming Britain's Economic and Financial Policy*, pp. 5-6.

ushers in the 'New Times' of production. A major characteristic of the New Labour government's economic governance is its self-confinement to a range of policy instrument, and the use of rules to replace discretion, as will be shown below. In order to effectively respond to challenges brought by globalization, new monetary and fiscal policy framework aiming to delivering longer and greater economic stability, of which price stability is the priority, were introduced by the Chancellor, Gordon Brown, to end the boom-and-burst cycles that the UK economy has historically suffered through.

(A) The new framework of monetary policy

Reviewing the past policy experience, one of the six lessons⁵ that has inspired the New Labour government is that a stable, credible and accountable monetary policy should be undertaken by experts, not politicians. Prior to the new monetary policy framework, decisions on interest rates were usually taken by the Chancellor but not always in consultation with the Bank of England, which was in turn likely to trigger suspicion that they were being undertaken to address short-term political considerations rather than long-term economic interests. As Mervyn King, the then deputy, now Governor of the Bank of England, points out "long-term interest rates contained a risk premium to reflect the possibility that the timing and magnitude of the interest changes might reflect political considerations" (HM Treasury, 2002: 18). On the other hand, some empirical studies found that on average, independent central banks, with only a few exceptions, tend to deliver low inflation without sacrificing

⁵ According to HM Treasury's latest publication (2002), *Reforming Britain's Economic and Financial Policy*, the other five lessons for the New Labour government from the past monetary policy experience are, first, inappropriate objectives; second, poorly specified objectives; third, insufficiently forward-looking; fourth, roles and responsibilities were not clear and consistent; fifth, a lack of transparency and accountability harmed credibility.

economic growth over the long term (HM Treasury, 2002: 61-64).

After coming to power, the New Labour government introduced a new monetary policy framework. The first and foremost step was to grant the Bank of England operational independence by establishing the Monetary Policy Committee (MPC) to take responsibility for deciding levels of interest rates. After operating for 12 months, this new monetary policy framework was formalized by the Bank of England Act which came into force in June 1998.

Alongside endowing the operational independent central bank, the second significance of the new framework was to unequivocally define price stability as the core pursuit of monetary policy. Since the Government is firmly convinced that its primary economic objective—high and stable levels of growth and employment—can only be achieved through low and stable inflation, Section 11 of the Act thus legally regulates the maintenance of price stability as the Bank's chief responsibility. In technical terms, the standard of price stability is explicitly specified and determined by the Government to be an inflation target of 2.5 per cent annual increase in retail price index, excluding mortgage interest payments. This standard is stressed as symmetrical, for any deviation below the target is regarded as defective as deviations above it. The Governor is required to write an open letter to the Chancellor to explain if inflation is more than 1 per cent above or below the inflation target. The third key element is improving the transparency and accountability of monetary policy, which will be discussed in the next section (HM Treasury, 2002: 44-48).

(B) The new framework of fiscal policy

In principle, the main objectives of the New Labour government's fiscal policy are, over the medium term, to ensure sound public finances and that spending and taxation impact fairly within and across generations, and over the short term, to support monetary policy by allowing automatic stabilizers to smooth the variations of the economy and provide a prudent and sensible fiscal

stance. The two key fiscal rules, specified in the 1997 Financial Statement and Budget Report, are first the golden rule, which requires that, over the economic cycle, the Government borrow only for investment and not for funding current spending; and second, the sustainable investment rule, which requires public sector net debt as a proportion of GDP to be held over the economic cycle at a stable and prudent level. The Government expects that, other things being equal, a reduction in net public sector debt to below 40 per cent of GDP is attainable (HM Treasury, 2002: 134-136).

In practice, the Government was faced with a large fiscal deficit, low new investment, increasing public debt and descending public sector net worth when taking office in 1997. The Government interpreted this situation as an outcome of lacking clear and transparent fiscal objectives as well as insufficient public and parliamentary scrutiny. Thus, the new framework of fiscal policy, which was legalized in the Finance Act of 1998 and in the Code for Fiscal Stability, particularly emphasize openness, transparency and accountability of fiscal policy (HM Treasury, 2002: 136-144).

A number of changes as a consequence were brought into fiscal management. First, the Code requires governments to specify and explain their fiscal objectives and rules both to the public and the parliament either by distributing newly-created corresponding reports or on request by the Treasury Select Committee and also minimize debt management in the long term. Within this context, a series of fiscal reports are first published to allow the public to monitor proceedings with sufficient information. For example, the Pre-Budget Report (PBR) was first published in November 1997 in order to stimulate a national debate over the UK's major economic issues. While the Financial Statement and Budget Report (FSBR) is intended to describe the Government's short-term economic and fiscal projections and detailed policy announcements included in the Budget, the Economic and Fiscal Strategy Report (EFSR) sets out the Government's long-term economic and fiscal strategy. The

Debt and Reserves Management Report illustrates how the Government manages and operates its debt policy and provides market participants with some certainty in planning their investments. Second, a new accruals-based accounting and budgeting system—the Resource Accounting and Budget (RAB)—was introduced to distinguish capital expenditure from current expenditure and records expenditure when it arises rather than as cash is paid, as does the previous cash-based model. Third, in order to increase public confidence, the Code requires the Treasury to invite the National Audit Office (NAO) to audit the key assumptions and conventions underpinning fiscal projections and to ensure that any advice received is published (HM Treasury, 2002: 136-144).

The common characteristics both in new monetary and fiscal frameworks reveal the Government's intention to bring stability as a precondition of growth and employment into the UK's economy by enhancing credibility, accountability, openness and the transparency of the decision-making process. In terms of the objectives that the Government is attempting to achieve, these new frameworks have been successful. Inflation has been low, stable and close to the target, while the economy has experienced a steadily rising growth and employment since these new frameworks have come into effect. The number of unemployment claimants in May 2002 fell to its lowest level—only 3.1 per cent of its labor force—in more than a quarter of a century. In an experimental transparency report and review of the UK for 2000, the IMF praises the outcomes brought by the Government's new monetary and fiscal frameworks as follows:

Strengthened macroeconomic and structural policies, underpinned by improved monetary and fiscal policy frameworks, have contributed importantly to the United Kingdom's achievements....a fiscal policy framework that has improved transparency and provided a medium-term orientation to policy have helped increase private sector confidence. The creditability of monetary policy has been

enhanced with the adoption of a framework that provided for the operational independence of the Bank of England, a clear inflation target, and increased transparency of monetary policy decisions. (2001: Article IV Consultation)

(C) The convergence of the UK's economic governance with that of the EMU

What do these new monetary and fiscal frameworks mean to the UK's EMU membership? First and foremost, it indicates a fact that the policy preferences of the UK's transforming economic governance are consistent and converged with the values and purposes of the EMU. In terms of policy ambitions and objectives, both policy frameworks pursue price stability as the prior target of monetary management and aim to achieve a prudent public financial system in fiscal governance. In terms of policy implementation, both regimes employ, and are restricted to, well-defined rules and guidelines instead of conventional fluid discretionary maneuvering. The UK's new monetary framework, for the first time, specifically defines the concept of inflation and sets out clear-cut measurements for achieving its inflationary targets, just as what was adopted in the EMU's Maastricht Treaty. Similarly, the upholding of a variety of rules and guidelines in New Labour's fiscal management, as mentioned above, help to maintain the prudent fiscal stance laid out in the Stability and Growth Pact (SGP), which set up the fiscal disciplines for EMU member states.

In terms of individual policy area, with regard to monetary governance, interest rates of the UK and EMU are both decided by independent central banks, the Bank of England while, in the case of the EMU, the European Central Bank (ECB), respectively and thus free from the intervention of political influence. Both central banks are endowed with independence, by the Bank of England Act and by the Maastricht Treaty, respectively, in order to pursue a single, clear and definite objective—price stability. Policy-makers on both sides of the English Channel share a common view in monetary management, that macroeconomic stability is key to

employment and growth, and a low and stable inflation is vital to achieving that stability. In respect to the fiscal regime, the UK's new fiscal framework requires an even tighter stance on government debt and budget deficit compared to the SGP. Its targets are to maintain public debt at a level below 40 per cent of GDP and bring budget status into surplus, whereas, by the SGP, the government debt of EMU members states should be kept below 60 per cent of GDP and budget deficits should not exceed the upper limit of 3 per cent of GDP.

As a number of studies (Rollo, 2002: 237; Barrell, 2002: 57; Barrell and Weale, 2003: 136) all point out, the current regime that the New Labour government has resorted to in governing the economy is convergent with that of the EMU. In the interpretation by the government itself, this high policy convergence between the UK and the EMU is "commensurate with its European Commitments" (HM Treasury, 2002: 159). Their policy convergence, in part, can be viewed as a reflection of the changing fashion of economic policy-making toward rule-based governance in the face of globalization, but this can also be explained by their highly mutual interdependence in trading.

Second, this high degree of policy convergence further suggests that if the UK were in the EMU, it would enjoy the advantages of the EMU, especially when facing the challenges of globalization to national economic governance, without paying a high price for the cost of an uncomfortable, ill-fitting transition. The losses of its economic sovereignty, in association with its economic size, policy nature, and time scale concerned, would not be as great as they were initially supposed to be, and would be significantly reduced, as well as accommodated by this convergence. The fruitful results that the New Labour government has created and delivered to the UK's macroeconomic environment and the desirable policy outcome that the new monetary and fiscal frameworks aim to acquire can also be achieved under the EMU framework. The benefits of low inflation would be maintained and sound public finance would continue. Barrell and Weale (2003:

136) predict that “if the UK were inside EMU, inflation would be similar as the ECB sets a lower target for a slightly different concept of inflation..., the fiscal stance would also be little affected, and as both fiscal systems adjust they are likely to converge.” Because of their policy consistence, the risks and costs of this major regime change, could presumably be effectively eliminated.

At the same time, the economic advantages of being a member of the EMU will gradually emerge for the UK’s economic governance. Rollo (2002: 221), and Barrell (2002: 58-61), by using different economic models, attempt to picture a likely scenario of the UK’s economic governance if it were in the EMU. In spite of their nuanced variations, one outcome is that inflation and interest rates, both short-term and long-terms, would be lower, and public deficit would be close to zero (see Table 2 & 3). That is to say, the monetary environment would be more stable with lower inflation and interest rates while the government’s fiscal stance in relation to budget balance would be more robust. They, as a result, both conclude that the UK’s performance would be a bit better if it were inside the EMU rather than outside of it.

Table 2 The estimation of Jim Rollo

	Inflation (by ECB indicator)	Nominal interest rate (per annum)	Public deficits
UK outside EMU	2.5 %	Short-term: 5-6 % Long-term: 6 %	1 % of GDP
UK inside EMU	1-1.5 %	Short-term: 4-5% Long-term: 5-5.5%	Leading to zero

Table 3 The estimation of Ray Barrell

	Inflation (by ECB indicator)	Nominal interest rate (per annum)	Public deficits
UK outside EMU	2 %	5-6 %	1.3% of GDP
UK inside EMU	0-2 %	4-5%	Close to zero

If the comparison is drawn only over a relatively short period in the last decade (1991-2001), the performance of the euro area was not particularly superior when compared to the UK. Over that period, the UK grew at 2.2 per cent per annum while the euro area grew at 2.1 per cent annum. Inflation, on average, was 3.2 per cent per annum in comparison to 2.44 per cent per annum in the euro area. The UK's performance was even better if we only look at the last few years. Over the four years, up until the second quarter of 2001, growth was higher in the UK than in Germany and Italy, whereas inflation, measured by harmonized consumer prices, was lower. Among the biggest four economies in the EU, only France enjoyed both greater growth and lower inflation than the UK. However, if the comparison is put in a longer period, then, it appears that the policy framework of the fixed exchange rate, as the ERM and the EMU demonstrate, performed much better than the successive British ones. Historical evidence suggests that, over the past 30 years, the core ERM (now EMU) countries, such as Germany, the Netherlands and Austria, have markedly better records both in low, as well as stable, inflation and economic growth under the ERM. There have been many factors behind the UK's relatively poor growth performance and some of them are associated with volatile economic governance and the lack of macroeconomic stability (Barrell, 2002: 59; Rollo, 2002: 227).

It is this stability advantage that EMU membership may be most appealing to the UK. Greater stability in the past has helped the euro countries produce higher investment and a larger capital stock per head in the UK. This increase in stability caused by EMU entry mainly derives from the elimination of the uncertainty that results from exchange rate volatility. By fixing the exchange rate against its major trading partner, business in the UK does not have to suffer from the volatility of exchange rate, as many important investors, such as Ford and Unilever, have consistently complained about and asked for. It is believed that this more stable

macroeconomic environment could encourage capital investment and research and development activity,⁶ and, in turn, improve the UK's productivity, which, between 1989 and 1999, remained 10 per cent below that of euro countries. The withdrawal of investment by a number of foreign investors, for example, Jungheinrich; BASA, both German manufacturers; Alsom UK, a French engineering company; Agco, and Black & Decker, both US manufacturers, due to the volatility of sterling exchange rate against the euro is evidence of this (Financial Times, 26 June 2002 & 3 February 2003; The Independent, 17 January 2003; The Times, 11 July 2002).

It is from this point of view of encouraging capital investment and enhancing productivity that Barrell and Weale (2003: 137) even contend that "the gains from exchange rate stability might be larger than any that can be obtained by improving the UK framework when outside", because an improved monetary framework alone still cannot effectively stabilize the exchange rate. They argue that, among all economic sectors, manufacturing has suffered the most from the exchange rate instability due to its close trading relationship with the EMU, and is therefore negatively effected by the level of productivity and growth (2003: 137-142). By the virtue of increased macroeconomic stability, Pain (2003: 82) and Barrell (2002: 69) both predict that output and growth, and consequently income levels would rise. This virtue is also expected to be more evident and demonstrative in a turbulent time for member states (Barrell & Dury, 2000: 642).

Along with the high degree of policy convergence, and the advantages of EMU membership for the UK's economic governance, however, a few divergences can be observed in the different measurements and practices that have been designed to achieve these policy objectives.

⁶ Byrne and Davis' study (2002) on seven major industrial countries found that the uncertainty of exchange rate and long-term interest rates are the major factors in affecting relative levels of investment.

(D) Divergences between the UK's State Governance and the EMU

In the fiscal aspect, a technical but substantial divergence occurs in the way of measuring budget deficit. As mentioned above, one of the two fiscal rules in the UK's new framework is the golden rule. A key feature of the golden rule is that it differentiates capital spending from current spending such as the payment of public sector salaries. According to the measures used in the UK's national account, it defines capital spending as future benefits. In contrast, some EU countries focus on the overall budget deficit, which includes both current and capital spending (HM Treasury, 2002: 159-167). Neither does it specifically distinguish capital spending from current spending in the Pact; rather, it treats the two as the same, which means it is even more restrictive. It implies that the mechanism for governments to fund public spending, a key factor of a "better public services provision" that the New Labour government was committed to in its manifesto for its second term, would be relatively limited and more dependent on rising taxation rather than borrowing with the EMU standard.

As the Pact requires, EMU member states have to maintain their budget deficits below 3 per cent of GDP, whether this technical divergence will lead to substantial disputes when the UK seeks EMU membership is of concern for UK policy-makers. The dispute over this divergence was first raised in January 2002, when the European Commission warned the UK government about borrowing. Being a non-EMU country, the UK is not legally subject to the Pact's regulation and the Chancellor responded to this warning in that "a prudent interpretation" of the Pact would allow "appropriate flexibility" (Financial Times; Evening Standard). This is the first case, but is unlikely to be the last one given the fact that the UK's public investment as a proportion of GDP is one of the lowest in the EU and is justifiably expected to be raised under the governance of the New Labour government.

In early November 2002, the Chancellor publicly called for

the reform of the Pact to take into account the economic cycle and the level of public investment in individual countries (The Independent, 8 November 2002). A few weeks later, the Commission positively responded to such a demand by announcing a new blueprint for reform, under which the Pact will be implemented with more flexibility when interpreting guidelines, and countries with low levels of long-term debt, such as the UK and Ireland, will be allowed to increase investment spending by running short-term budget deficits (The Independent, 28 November 2002). This announcement means that, based on current discussions of changes to the Pact, it would be possible for the UK government to borrow more and to invest more in public services if it joins the EMU. This divergence between the UK and EMU's practice for measuring budget deficits has been dealt, and, to some extent, lessened through a flexible interpretation and a differential application of the Pact to member states.

Perhaps a much greater challenge for the UK is the divergence between the models of the Bank of England and the ECB. The differences between these two models can be expressed in the aspects of independence, transparency and accountability.

In terms of independence, the ECB focuses on goal independence which is based on the German model, whereas that of the Bank of England is instrument independence which is much closer to the New Zealand model. In the former model, the ECB takes charge of all aspects of monetary policy formulation and implementation, from the choice and use of monetary policy instruments and procedures to the choice of policy targets—both final (inflation itself) or intermediate (monetary or credit aggregates). In the latter case, the Government retains the precedence of monetary policy decision-making by setting an explicit inflation target for the Bank, which has the operational autonomy to meet the requirement (HM Treasury, 2002: 44-46; Taylor, 1994: 56-57).

The Treasury explains this model as being more suitable for a medium-sized open economy operating in a fast-moving liberal

global capital market and more compatible with the UK's parliamentary and constitutional tradition. In contrast, it further argues that the German model can only work where there is a strong track record of successful stability-orientated policy-making and a long-established tradition of central bank independence. The legitimacy of the German model can finally be seen in the apolitical approach to monetary policy-making shared by all parties of the society as in the example of Germany itself. It cannot work for the UK not only because lacks such a tradition and track record, but also because it inherits a different historical and political context (HM Treasury, 2002: 94-96).

In terms of transparency, the Bank of England is viewed as one of the world's most open central banks, particularly when compared to the ECB, which is much less transparent. The MPC of the Bank is required to publish the minutes of its meetings two weeks later in which a record of decisions to intervene in financial markets are also contained, unless the MPC considers that publication would obstruct the purpose of its intervention. Moreover, the Bank is obliged to publish a quarterly inflation report in which it reviews recent monetary policy decisions, assesses developments in inflation and expresses the expected approach to meeting its objectives. In contrast, in order to avoid unwanted pressure from member states on national central bank representatives who co-decide interest rates, the ECB chooses not to publish its minutes (Hamalainen, 1999).

The Bank's accountability mechanism is incorporated with the arrangement of the newly-independent UK central bank under the new monetary framework. First, the MPC is directly accountable and fully responsible to the Government and the parliament for meeting the inflation target. It has to explain to the Chancellor if inflation deviates more than 1 per cent above or below the target and members of parliament are able to question the Bank and the MPC on their decisions and performance. Second, the MPC is also obliged to submit a monthly report on its activities to the Bank's Court of Directors as its supervisory body and submit

an annual report to the Chancellor. On the contrary, the accountability of the ECB is relatively narrower and weaker. Similar to the Bank, the reporting requirements of the ECB in this aspect are to publish an accounting of its activities at least quarterly, and to address an annual report to the European Parliament, the Council of EU finance Ministers (ECOFIN), the European Commission and the European Council. A presentation is also required to be delivered to the Commission and the European Parliament. But the president of the ECB and other member of the executive board are not under legal obligation to be heard in the European Parliament. Neither, are there any sanctions and overriding mandates to impose on the ECB in the monetary policy area. Although there is a relationship between the ECB and ECOFIN, as the president of ECOFIN and a member of the Commission, it may participate, but retains no right to vote in meetings of the ECB's governing council. While the president of the ECB can also be invited to ECOFIN meetings, the ECB is not eventually accountable to ECOFIN (HM Treasury, 2002: 53-55; Taylor, 1994: 57-58).

Indeed, the lack of accountability is the primary reason many critics have criticized the ECB. For discussion purposes, however, such a criticism should be put into a wider context. Considering the confederal nature of the EU, and the powers and functions of its institutions, as Taylor (1994: 58-59) suggests, it would be both unrealistic and impractical to require that democratic accountability be achieved at the monetary union level as high a degree as at the national level. The exercise of accountability over the ECB through twelve (or more after the enlargement in May 2004) national parliaments would be difficult, if not impossible, and the present political authority of the European Parliament is not sufficient to carry out this responsibility effectively. Moreover, examining the original intention of the drafters of the Maastricht Treaty, it is clear that accountability was not a priority; rather, the consensus was formed in strong support of securing and protecting the ECB as a highly independent body immune to political

interference. It is, in practice, not easy to design a mechanism in the EMU which can deliver greater accountability without simultaneously risking a reduction in the ECB's independence.

In addition, whether this divergence in policy design between the Bank and the ECB has any influence on its policy performance of responsiveness or the effectiveness of its monetary governance is debatable. The decision-making process of the Bank is indeed transparent and accountable, but it does not necessarily mean that its decisions are more understandable and explainable. As Barrell and Weale (2003: 134) point out, the MPC's decisions sometimes are not clear and often puzzle outside observers of financial markets. Since the Bank publishes MPC votes as well as a forecast and as there is no 'collective responsibility' for MPC members, an individual member has no need to explain decisions, which in turn further engenders a lack of clarity in decision-making. More importantly, within the rotating independent-expert framework, it is difficult to detect and identify the MPC's response mechanism, and therefore expectation formation would be more obscure than it was under a system with a clear institutional response such as in the ECB. Goodhart (2001), a former member of the MPC, even argues that because the inflation forecast, based on which decisions on interest rates by the MPC are made, has to come from somewhere, it makes the MPC lack genuine independence.

By contrast, with the design flaws in transparency and accountability, the ECB, has utilized innovative practices to counter these institutional flaws, and these responses can be seen as an attempt to respond to criticisms in this aspect. For example, the President of the ECB regularly appears before, and is questioned by, the European parliament, although, unlike the UK's case, under no legal obligation, to openly discuss and explain the ECB's decisions; it also holds a monthly press conference to put its decisions to public discussion and scrutiny. The ECB's operations are indeed less transparent and accountable than those of the Bank, however, its decision-making process and policy outcomes are managed in a more clear and open manner, and through enhancing openness in,

and clarifications for, its operations, the ECB, in effect, provides greater certainty (Barrell, 2002: 57; Barrell & Weale, 2003: 135). Therefore, it, may be reasonable to assume that if the UK entered into the EMU, it would find little problem with a more clarified and open monetary framework, even though divergences would exist in institutional design.

IV. Concluding Remarks: Double-edged of EMU Membership

On the face of it, membership in a monetary union like the EMU inevitably incurs a substantial transfer of a nation states' economic sovereignty to supranational institutions like the ECB. Such a sacrifice of economic sovereignty can be vividly illustrated by the November 2002 developments in Portugal, Germany, France and Italy.

Portugal received a formal warning from the European Commission after its 2001 budget deficit, which amounted to 3.85 per cent of GDP, a breach of the 3 per cent ceiling of the Pact. The country stood to face a likely fine of up to 0.5 per cent of its GDP for this violation. In order to respond to the requirements of the Commission and keep in line with the Pact, the Portuguese government adopted a series of measures to correct the excessive public deficits, such as cutting down public sector jobs, closing down or merging public institutions and undertaking cuts in the education budget. These measures led to a strong demonstration, from both public and private employees. Germany also encountered the sanction procedures initiated by the Commission after being informed by formal warning that its 2002 budget deficit, of 3.8 per cent of GDP exceeded the upper deficit limit set by the Pact. This news dampened the optimistic anticipation of the country's economic recovery in 2003. In the cases of France and Italy, the Commission issued an early warning that their respective 2003 budget deficits were estimated to approach the edge of the 3 per cent limit (The Economist, 27 July-2 August 2002; BBC, 13 &

19 November 2002; EUobserver, 19 & 25 November 2002).

In the face of the challenges imposed by EMU membership to domestic economies, France, Germany and Italy launched an effort on how to deal with the problems caused by the Pact (EUobserver, 25 November 2002). While the discussions of reforms to the Pact are ongoing, such developments highlight a basic fact that the economic sovereignty of individual member states has been constrained under the EMU framework. To this point, EMU membership, indeed, requires a substantial loss of national sovereignty.

It is because of the issue of sovereignty, along with other factors such as the nature of oil production in the UK economy,⁷ structural differences from other EU countries,⁸ and the inflexibility of the European labor market, that Euro-skeptics propose a case against the UK's EMU membership. However, such arguments would be ill-founded, and unpractical, if they were not observed from within a wider globalization context, or alternatively did not take the impact of globalization on economic governance into account. Just as different countries are exposed to differential levels of globalization, the losses of economic

⁷ It is noteworthy that the economic importance of North Sea oil has considerably declined in relation to UK GDP and national revenue since the mid-1980s. Oil production has dramatically fallen in the recent years, hitting its lowest point in 2002 due to the high-tax policy adopted by the Labour government. See The Department of Trade and Industry (1998); Oil's not well (2003).

⁸ With such structural differences in mind, it can be argued that the comparative advantages of UK industry are stronger in the high-technology area when compared with those of other EU countries. However, this difference is of degree rather than of the essence. For example, according to the survey of OECD, the UK accounts for 9.7 per cent of OECD hi-tech export market shares, while Germany accounts for 9.4 per cent and France for 8 per cent. The latest OECD report in 2000 comments that, 'on several sectors, even as an "out", the UK is projected to be as close, or even closer, to the economic center of gravity [of the euroland] than some of the current "ins".' A similar conclusion can also be drawn from the UK government's second assessment of EMU membership, published in June 2003 by the Treasury.

sovereignty do not occur equally among the member states of the EMU. The UK, as a medium-sized country whose domestic economy is not used to subjecting itself to a single anchor body or currency as other EU countries are, theoretically, would face the greatest loss of economic sovereignty, particularly when compared with smaller and larger EMU countries. However, such 'great' losses of economic sovereignty should not be exaggerated or oversimplified, since in the long term, no country from a macroeconomic perspective, can fully preserve its economic autonomy over domestic affairs. This is particularly true for the UK, as it is one of the world's most open economies and also because it contains the City of London, which is one of the premier international financial centers in Europe. As a result, the UK is more vulnerable to any changes in, and the impact of the world economy and global finance. The freedom of the UK's economic governance to maneuver, to a larger extent, has been circumscribed by the rules and operations of international financial markets. By the same token, it would be equally indefensible and questionable to argue that such losses of economic sovereignty as is required for the UK's accession to the EMU is too weighty a trade-off, since the preservation of it in the globalized world is not as complete and unconstrained as it has been suggested.

Moreover, as the major policy preferences of the UK's current economic governance under the new monetary and fiscal frameworks are on the same track with those of the EMU, such a power shift and loss of economic sovereignty would not be as revolutionary and unaccommodating as has been suggested. The high degree of policy convergence is expected to effectively reduce the cost of sovereignty loss and to facilitate a smooth and comfortable transition to this regime for the UK. The likelihood of this prospect is further strengthened by the decrease in their policy divergences, mainly in technical issues and working practices, through flexible interpretation and application of the Pact. The latest development in November 2003 is indicative of such a trend toward a greater flexibility of the Pact. At its meeting on 25

November, the ECOFIN accepted the Commission's advice that Germany and France were in breach of their commitment to avoiding excessive budget deficits, but, at the same time, decided not to impose any sanctions on them after considering the current sluggish economic conditions in these two countries. This means that the application of EMU regulations to member states allows a certain degree of discretion, and sanctions within the EMU for countries that breach obligations, as Begg and Schelkle (2004: 88) observe, rely more on "soft pressures of peer esteem and calling into question of their domestic reputation for competence, than the hard sanctions", laid out in the Excessive Deficit Procedure (EDP).

On the contrary, the EMU can be a positive facilitator for economic governance. As economic and financial globalization have advanced to an unprecedented degree since the second half of the 20th century, the effective economic governance of nation states has been substantially constrained and even damaged, as has been proven in the economic and financial crises that have occurred in the last decades. Sovereignty is no longer an absolute, exclusive concept. Neither can a country solely manage the impact of globalization or encounter any economic and financial crisis without the collective assistance of other countries. To that point, the EMU is a potent regional response to the challenges of globalization. Through collective forces, the sovereignty of member states can be preserved and even expanded in the face of economic and financial globalization. In terms of improving the effectiveness of state governance, the economic sovereignty of individual member states, which initially has been surrendered to the EMU, can be said to be regained and re-strengthened in other forms. The successes of the EU in a number of WTO negotiations are the obvious examples.

As far as the EMU is concerned, it has already been proven to provide an umbrella of protection for member states suffering from speculative pressures from international financial markets and the instability of the world economy, as evidence from EMU countries

like Finland and Ireland has shown. Since the UK has not yet joined the EMU, the empirical evidence of how these beneficial effects would, and could, influence the effectiveness of its economic governance is still lacking. However, estimations by different hypothetical economic models suggest that macroeconomic management would be better and more stable if the UK were in the EMU.

Just as the sovereignty of nation states in this globalized world are not fully clear and distinct, the sovereignty losses within the EMU are also not absolute. It depends on which sides analysts chose to assess. The answer to the question of whether the EMU increases or decreases the UK's economic sovereignty, therefore, is double-edged. As European economies becomes more homogeneous, and hence policy convergences across EU member states become more likely, the positive effects of EMU membership on the UK's economic governance will be more illuminating.

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全球化時代在歐洲經濟與貨幣聯盟之下的 國家治理——以英國為評估

羅至美

摘 要

對參與歐洲經濟與貨幣聯盟 (EMU) 的會員國而言，最大的代價即是經濟主權的讓與。本文將以英國為例，分析與評估在全球化的時代，如果加入歐元，英國的經濟主權與國家治理將會受到如何地影響變化。基於英國為一開放的經濟體並為歐洲金融中心，因而意謂著其易受國際經濟與國際金融變動的影響，本文將從全球化及其對國家治理的影響開始探討。在此一背景下，進而討論EMU做為促進會員國經濟主權的角色，從而再以四種指標評估英國加入歐元的主權得失的議題。本文的結論為：隨著歐洲各經濟體益趨同質化，及英國與歐元區的政策聚合度的提升，加入歐元對英國經濟管理的正面效應將在全球化時代日益顯明，而主權損失的代價將可望減輕。

關鍵詞：全球化、歐洲經濟與貨幣聯盟 (歐元)、英國、國家治理、經濟主權