

Summary of articles

Economic Convergence in the Integrating Community Economy and the Role of Economic Policies, by Bernard Connolly and Jürgen Kröger

The present paper shows that with increasing economic integration the notion of nominal convergence is changing with price convergence more easily achievable, convergence of cost trends becoming more important and convergence of current account balances less essential. Convergence in supply conditions will crucially determine future employment opportunities. The issue of credibility of the supply performance seems to be just as important as the more conventionally accepted issue of macro-economic credibility. Policies which, enhance the supply-side flexibility of EC economies would reduce the temptation to use discretionary policies to influence regional output and employment. Flexibility of relative price and wages would also by itself temper the need for demand management, facilitate adjustment to both temporary and permanent shocks and reduce the need for an intra-EC transfer mechanism. However, the reform of economic structures so as to increase flexibility will itself constitute a shock. Structural reforms may thus themselves be a source of short-term destabilisation of aggregate demand, prices and employment. Deciding whether or not anticyclical fiscal responses (which may be equivalent to capital controls) are appropriate in such circumstances is not straightforward.

Journal of Economic Literature classification numbers : 423, 432.

The External Dimension of EMU, by Charles Goodhart

This paper is divided into three main sections. The first considers the implications of the Maastricht treaty for the external economic dimension, concentrating mainly on the inter-relationships between, and allocations of responsibility for, the decisions within the EC on the main policy issues, monetary policy, the exchange rate regime and fiscal policy. The second section considers the non-strategic external economic implications of EMU and the move to a single currency, the Ecu, issues such as the effects on trade finance, reserves, seigniorage and the net external demand for Ecu assets. The third section discusses how the establishment of EMU may affect the workings of the

world economy, the exchange rate regime and coordination, such as it may be, among the main players.

Journal of Economic Literature classification numbers : 325, 423, 432.

National Insurance against Unevenly Distributed Shocks in a European Monetary Union, by Jacques Mélitz and Silvia Vori

We examine proposals to introduce national insurance against unevenly distributed shocks in the European Community. This insurance would operate differently from tax and government spending activities that now yield regional insurance within countries, since these activities are mainly designed for other purpose such as income redistribution and general revenue-raising. According to our evidence, the appeal of such insurance is very limited because the risks are too highly correlated and there is an excessive chance that a country in difficulty would not receive aid. The costs of a continuing programme are likely to exceed the benefits.

Journal of Economic Literature classification numbers : F41, F42, H77.

Real Exchange Rate Variability in Monetary Unions, by Paul De Grauwe and Hilde Heens

In this paper we compare the interregional and international degree of real exchange rate variability of a number of EMS-countries. This allows us to gain insights into the costs of a monetary union. Our major conclusion is that a monetary union among all EMS members would be costly for some of them if it were instituted today. We also find that a monetary union among a «hard-core» of EMS-countries (Benelux, Germany, Denmark) would not involve major costs.

Journal of Economic Literature classification numbers : 423, 431, 432.

D'une série de «National Labour Standards» à un «European Monetary Standard»?, by Robert Boyer

The paper investigates the links between the European Monetary Integration and the ongoing specificities and partial autonomy of industrial relations, labour markets and labour regimes at the national level. This is a follow up of John Hicks (1955) paper arguing that the Thirties experienced the transition from a gold standard, to a series of labour standards. The implementation of the Ecu means a complete change in the economic and monetary regime, but in an apparently opposite direction, upon which most economic theories do not provide

any clear conclusion. Given the lagging and sketchy social charter, the monetary integration will very likely challenge most national industrial relations and labour regimes. Indeed, there are few national variables able to deliver parallel price evaluations and a unique interest rate : within the current configuration, diverging unemployment rates are to be expected. Consequently, industrial relations should be redesigned, but the bargaining between firms and the unions will not necessarily deliver labour contracts coherent with the macroeconomic objectives of European authorities.

Journal of Economic Literature classification numbers : E42, E50, F33, J30, J60, N20.

Transactions Use of the Ecu in the Transition to EMU: A Model of Network Externalities, by Polly Reynolds Allen

To answer the question under what conditions during the transition to EMU will firms choose the Ecu as their currency for transactions, the paper develops a simple model of a firm's choice of currency for pricing, invoicing and receiving payments for its product—its transactions currency. The focus of the model is the presence of network externalities derived from use of the same currency by others. The model points up the fallacy of focusing only on relative inflation performances of currencies when judging their likely adoption for transactions purposes.

Journal of Economic Literature classification numbers : 423, 432.

From Here to EMU: The Role of the Ecu after Maastricht, by Alfred Steinherr

The Maastricht Treaty on EMU has generally been hailed as "a victory for the Ecu". This is a misinterpretation. Maastricht is a victory for the EMU. EMU does not require the actual Ecu, and the actual Ecu did not receive a boost from the decision to call the future single currency "Ecu" rather than "Euromark". Maastricht has not nailed down the actual Ecu's future and has left some uncertainties. Finally, it is not certain that the future Ecu will be at least as "hard" as the Deutschemark. The Maastricht Treaty went as far as practically possible in anchoring the Ecu's stability. But performance will depend on factors outside of the Treaty's scope.

Journal of Economic Literature classification numbers : 423,432.

Les conséquences de l'Union Economique et Monétaire pour la profession bancaire, by Philippe Moutot

It is worth exploring the impact of EMU on European banks. First, this paper differentiates the immediate consequences deriving from the Maastricht Treaty from matters still undecided. Then, assuming a safe and efficient European payments system as a goal, it outlines some directions for progress as well as prospective roles for the ESCB and for private banks in this field. Third, it examines the combined impact of the Single Market and of EMU on banks' products and on interbank competition. Finally the link between the implementation of monetary policy and the competition between financial centres as well as the degree of influence of private banks and national authorities upon this competition are discussed.

Journal of Economic Literature classification numbers : 310, 430.

Cycles de change et choix d'investissement en incertitude by G. Nancy, M. Aloy, Ph. Gilles and L. Gonçalves⁽¹⁾

Starting from the definition of "probability" which provides an approach to monetary and real determinants of exchange rates, that paper tries to explain the relationships between the investment choices, business and exchanges rates cycles. The methodological framework is based on the Engel and Hamilton (1991) statistical investigations and an expectation modelling according to Bernanke (1983) work. The empirical results point out, on one hand, a very high option value for the investors in the real sector with respect to the monetary and financial assets. On the other hand, an option value differential according to the countries involved in the international investment process is proved.

Journal of Economic Literature classification numbers : 430, 441.

EMU, Exchange Rates and the International Monetary System by Peter B. Kenen

This paper asks how EMU will affect foreign-exchange markets, the demands for various key currencies, the behaviour of exchanges rates among them, and policy coordination. The advent of the Ecu as the single currency of the EC may reduce the vehicle role of the dollar in foreign-exchange markets. Yet the share of the Ecu in global reserves may be lower initially than the sum of the shares of the present

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EC currencies. The private demand for Ecu, domestic and foreign, may also be smaller initially than the demands for the present EC currencies. By helping to unify EC capital markets, however, advent of the Ecu may raise the flow demand for Ecu-denominated claims, causing the Ecu to appreciate in the early years of EMU. Finally, EMU may not help Europe to speak with one voice in international negotiations and may thus interfere with policy coordination.

Journal of Economic Literature classification numbers : 432, 431, 423.