Comments on “European Monetary Union: the Dark Sides of a Major Success” by Charles Wyplosz

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- Excellent paper, looking at the Maastricht convergence criteria, the stability and growth pact and the ECB's monetary policy strategy.
- Subjects I shall discuss.

i) The macro performance of the major Eurozone economies relative to the UK and the US.

ii) Fiscal Policy Rules.

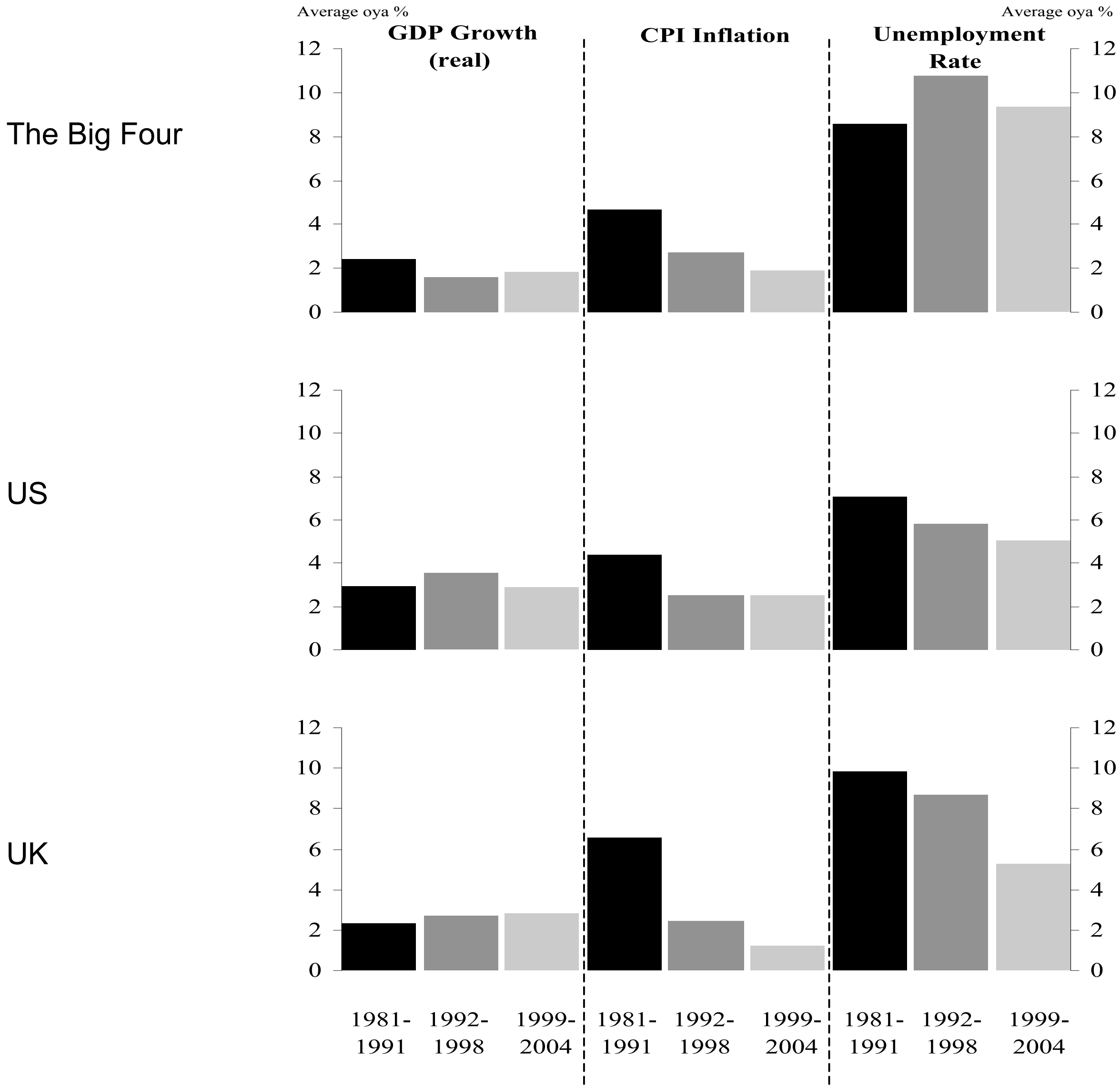
iii) The inflation target.

iv) Asymmetric shocks.

Relative to the decade prior to 1992, the Eurozone “Big Four” (France, Germany, Italy, Spain) have performed less well post-1992 than the UK or the US.

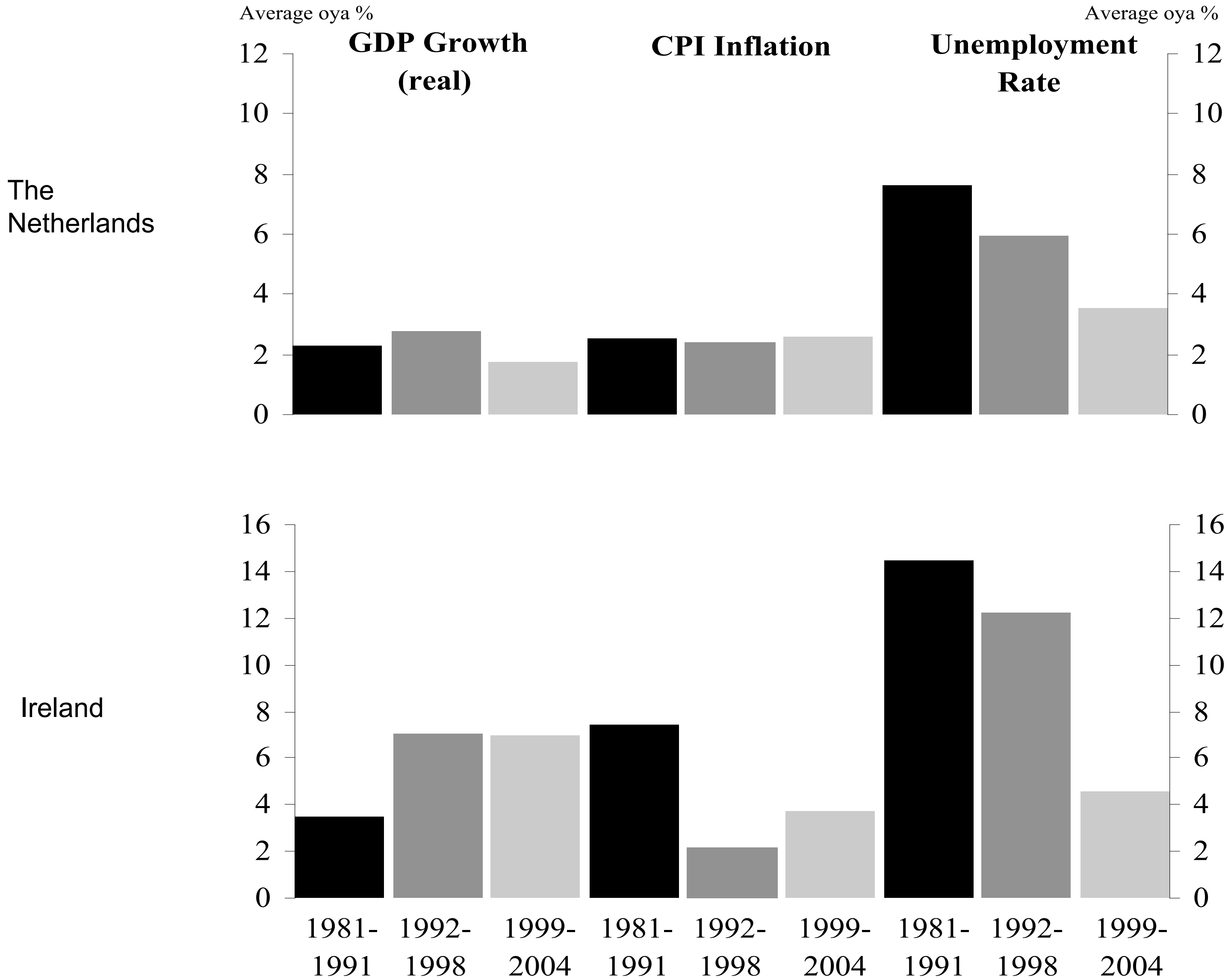
Why? The Euro? Look at Netherlands or Ireland.

Figure 1
Performance in the US, UK and Big Four Eurozone Economies



Note: the “Big Four” are France, Germany, Italy, Spain

Figure 2
Performance in the Netherlands and Ireland



The US has had an ICT based surge in productivity growth since 1995.

This was concentrated in the big service sectors and involved significant complementary management investments.

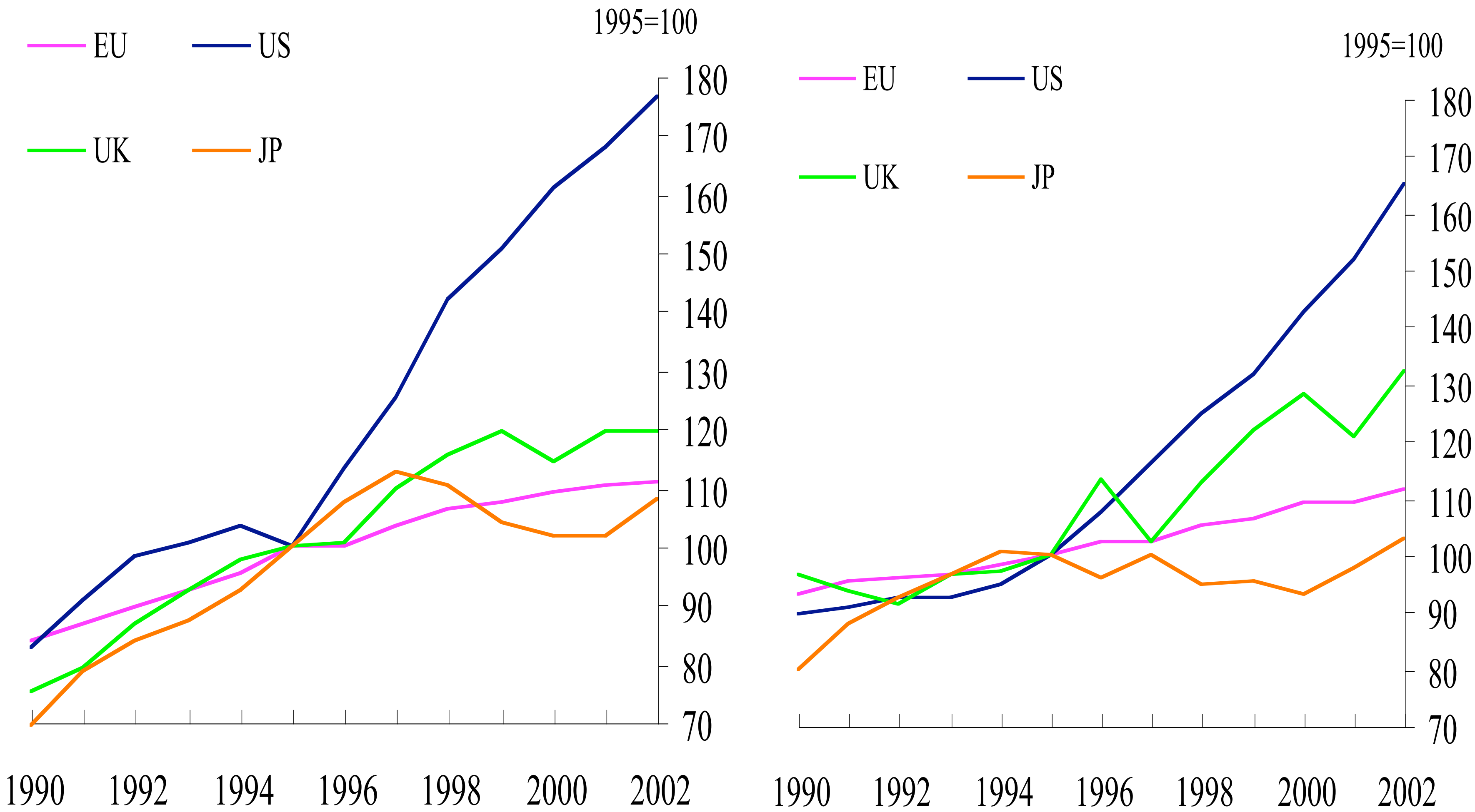
This did not happen in either UK or the Big Four because of absence of appropriate organisational shifts, absence of competition in the service sector and widespread service sector regulation. Nothing to do with the Euro.

Table 1
Annual Labour Productivity Growth (%) in the United States, 1987-99

Industries	1987-95	1995-9	% output share (1999)
IT-producing	8.24	11.90	5.3
IT-intensive	1.24	2.61	47.3
Other	0.98	1.11	47.4

Figure 3

Productivity in the Retail Distribution Sector



Source: Groningen Growth and Development Centre, 60-Industry Database, February 2005, http://www.ggdc.net

The UK has had a significant fall in equilibrium unemployment in the 1990s based on:-

- the decline in private sector unions
- the gradual increase in the focus of the benefit system on moving the workless back into jobs
- the deregulation of the service sector.

Nothing to do with the Euro. Unlike the Netherlands, say, the Big Four did not introduce appropriate reforms.

Fiscal Rules.

- Because fiscal policy is tightly bound up with day-to-day politics, it seems to be very difficult for governments to abide by rigid rules.
- Hard to detect disobedience of sophisticated rules. But simple rules are unsatisfactory.
- Could an apolitical technocratic body play a role? Difficult, because Finance Ministers will not tolerate a situation where such bodies appear to be determining fiscal policy.

Possibilities.

- Government agrees to a set of broad rules which guarantee that debt/output ratio remains under control.
- Government agrees to publish projections of the fiscal position on a regular basis which may be challenged by other groups.
- The on-going public debate helps the government to stick to the rules over the long term.

Monetary Policy. ECB has done well, but

- a precise, symmetric inflation target certainly helps me to explain things in terms of under- or overshooting the target.
- Even more helpful in the more tricky, multi-country, ECB environment.

Asymmetric shocks.

- CW investigates by analysing unemployment given output (OKUN). But most of the relevant shocks hit output and employment alike.
- I think they are probably quite important – eg. Greece, Italy going forward, eg. in 2005 Q1, in Germany unit labour costs fell by 3.7% over the previous year whereas in Italy they rose by 6.7%!