

BOOK REVIEWS

***European Currency in the Making.* Edited by Otmar Franz.** Sindelfingen, Germany: Libertas, 1989.

This book represents a collection of contributions by European politicians, central bankers, and academics to the very topical debate about European monetary integration. The 20 papers are organized into three parts. Part I is devoted to the role of the ECU in the European Monetary System; Part II deals with the significance of the European Monetary System; and Part III with the conditions necessary for the creation of a European Currency. Contributions have the merit of being concise, with an average length of 6.5 pages.

A book is usually written for a targeted group of readers. For this book it is not easy to identify a clear target group. It is not aimed at the attention of the more academically inclined reader, and the papers do not pretend originality of thought or presentation (the more noteworthy papers were published elsewhere previously). They might, however, be useful as reflections of current thinking among decision-makers in the European Community, or as a source of up-to-date factual information. To serve such a purpose is, however, extremely difficult given the rapid pace at which integration has been proceeding in recent years. Clearly,

timing of the collection of articles, written in 1987 but published in 1989 turned out a bit unfortunate in light of recent developments. In 1988 the British Treasury started to issue T-bills and thereby dramatically improved liquidity at the short end of the ECU market; in the same year the European Communities issued a medium-term benchmark band and in 1989 France launched a government issue with an initial size of ECU 1 billion. In 1989 the Spanish and Portuguese currencies entered into the definition of the ECU and Spain joined the EMS. Also in 1989 the Delors Report proposed a three-stage programme for European Monetary Union.

The collection of views in this book is, moreover, not representative of European opinions in 1987. Of the 20 contributors to this volume 9 are German whilst none is French or Italian. This is regrettable given that these two countries have been most active in and supportive of the ECU market. As the most remarkable success have been achieved in money and capital markets it is somewhat astonishing that no contribution deals with ECU financial markets in some detail.

An advantage of this book is the confrontation of political and academic views. Such confrontations are never easy to organize, and this becomes quite apparent in this book. Issues are not always clearly identified, focused, and analysed. For Part I the fundamental question

would surely have been whether the ECU was an essential part of the EMS. An agnostic, and perfectly acceptable view is that, in the past, performance of the EMS would not have been in any way different if the ECU did not exist. The 8 contributions to Part I do not even raise the question. Therefore it also becomes difficult to identify the potential role of the ECU for strengthening or improving the symmetry (a concern of the absent Italian and French views) of the EMS.

Part II elaborates on the significance of the EMS. Instead of focusing on the question "significance for what" the contributions deal with an eclectic array of "national views". At the end of Part II the reader will not comfortably assess the significance of the EMS. To illustrate the reader's difficulties I quote a statement on p. 73: "A system of fixed exchange rates cannot be sustained unless there is a comparatively equal level of development throughout the Community". What is an equal level of development? Why did the gold standard and Bretton Woods function well for sustained periods on a world-wide basis? Why have Northern and Southern Italy been able to sustain a fixed exchange rate? If the answer to this last question is that a single currency is different from fixed exchange rates then the contributions fail to make that point. It might of course still be true that although in fact sustained, it was not optimal to have a single currency for Northern and Southern Italy. This is precisely the question asked by the theory of optimum currency areas which is hardly mentioned in this book. This body of theory identifies what it takes to achieve macroeconomic adjustment to desirable targets with fixed exchange rates. Equal levels of development is not one of the necessary conditions in that body of theory.

The third and last part attempts to state the "conditions necessary for the creation of a European currency". Here it would have been essential to distinguish between a system of fixed exchange rates and establishment of a single currency area. For the creation of a

single currency area all that is necessary is the political will to have a single currency. Whether that is optimal is of course a totally different question. One of the key issues is whether the monetary authority in charge of that single currency can be endowed with total independence. The Swiss and German experience suggests that independence is not only a matter of an appropriate constitution but requires general political support. The other central point is whether fiscal policy needs to be brought into the picture. The Delors report subscribes to the view that fiscal policy co-ordination is necessary. The British Government and many academics disagree. These issues are complex both from a theoretical and a political point of view and the debate is not closed yet. It seems difficult to deal with such issues without a properly stated framework as is attempted in this book.

To sum up, this book may be most useful for the non-specialist. It suffers from the fact that between writing and publishing the EMS and the ECU changed considerably. For the reader in the ASEAN area this book may be useful because it illustrates several important points. First, monetary union in its various possible forms (i.e., fixed exchange rates or single currency) is a very ambitious project. It requires a high degree of economic integration, convergence of inflation rates, convergence of political objectives, and willingness to surrender part of national autonomy. Second, the only practicable approach is not to set up a grandiose political objective, but rather to advance with economic integration far enough to create a need for monetary integration. Although monetary integration has been on the agenda in Europe for nearly 20 years it has only become a concrete issue recently. Creation of a single market, success of the EMS, and convergence of political objectives have jointly brought politicians and the market to insist on the need for monetary integration. It seems therefore that ASEAN countries are not yet integrated enough to be able to envisage in the near future monetary integration.