

Discussion of Mongelli and Wyplosz

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A tough paper to discuss

- Encyclopedic overview of issues surrounding EMU – hard to even summarize
- Will only pick on few selected themes where perspective differs or where I have something to add
- Much in the paper that I agree with/learned from that I won't mention

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- Def. 2: Average EMU citizen better off with EMU than would have been had EMU not happened
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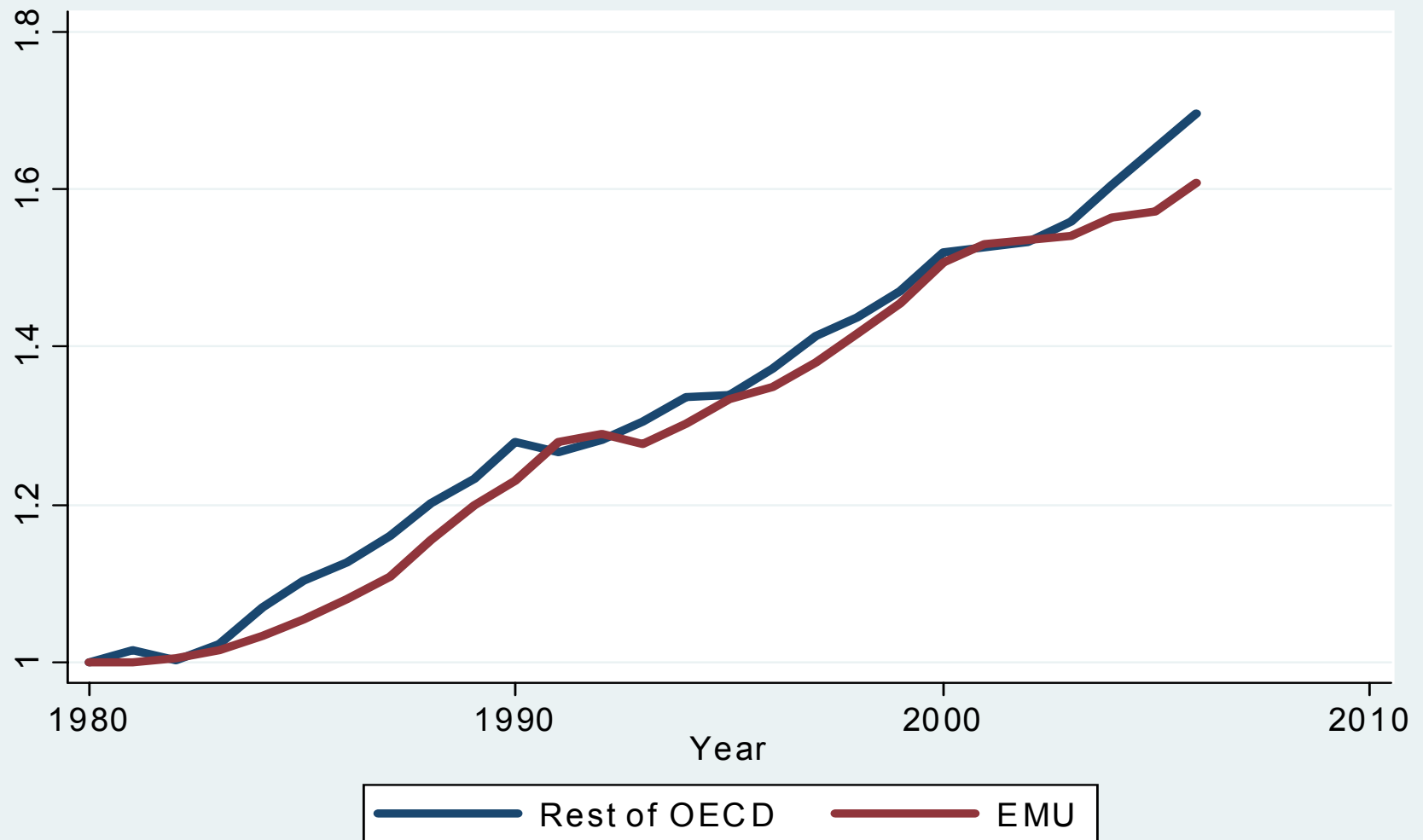
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- Having said that, let's speculate!

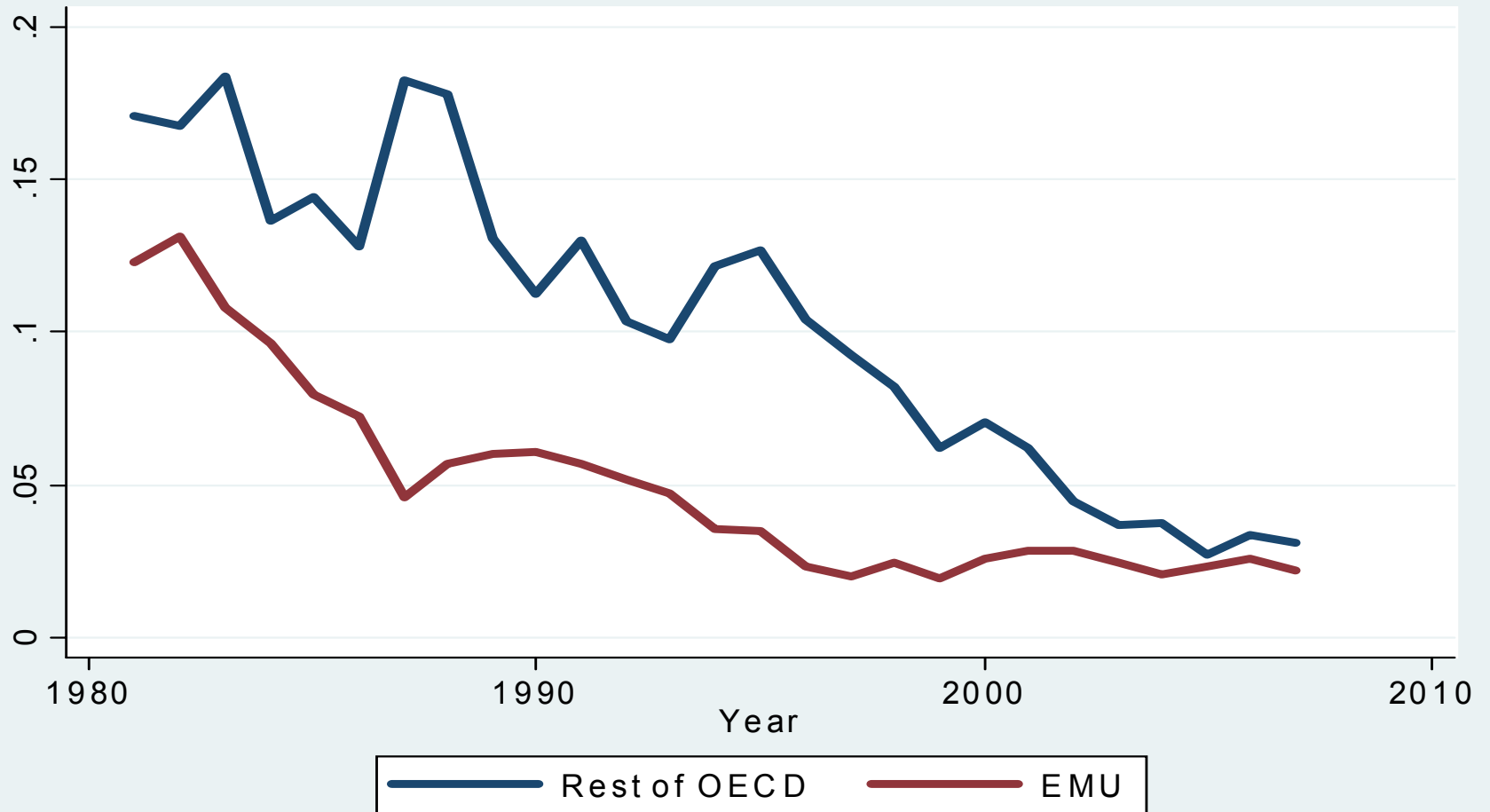
Are we better off?

- Levels
 - Income
 - Inflation
- Volatility
 - Consumption growth rate

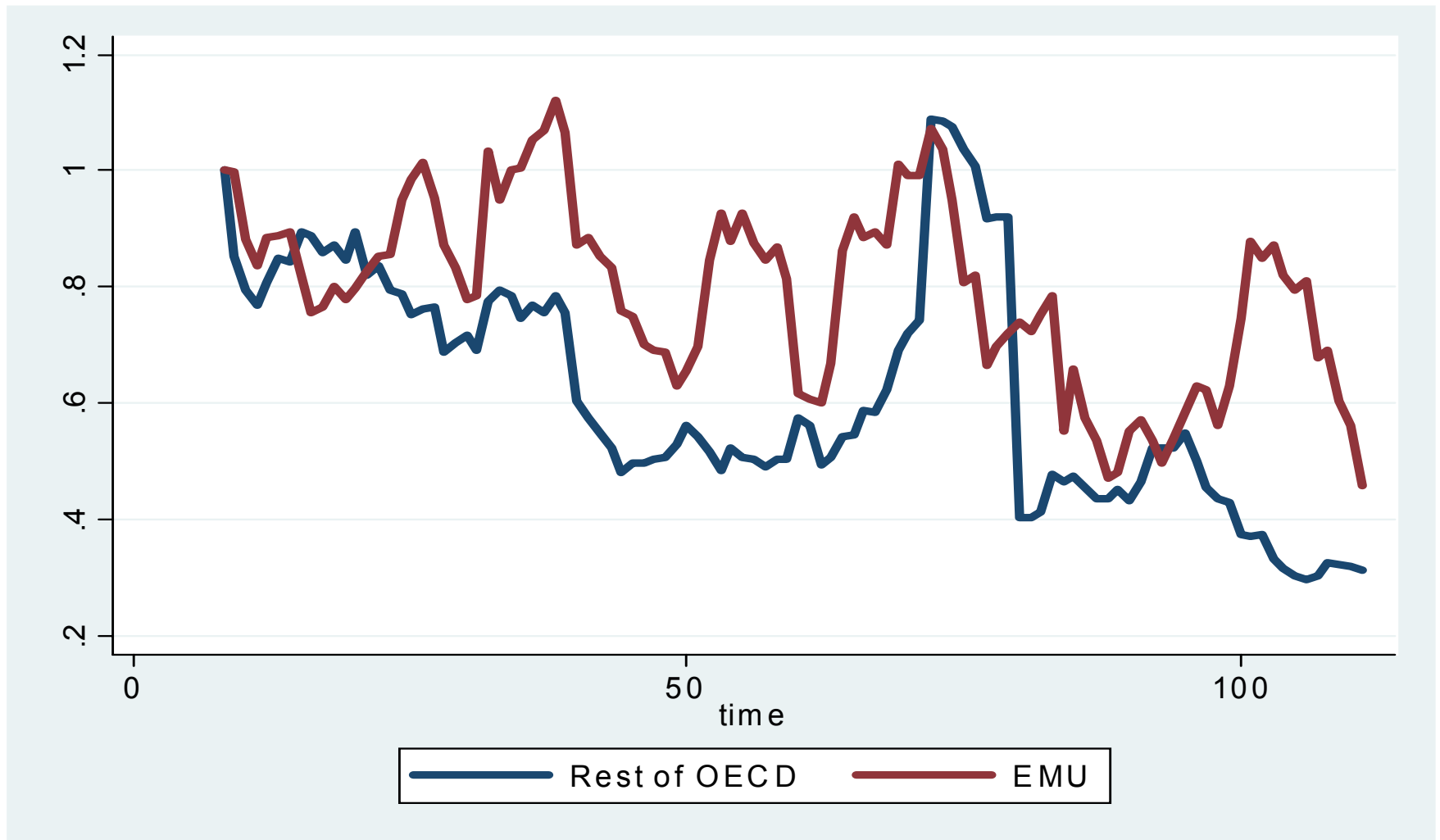
Per-capita GDP (1980=1): EMU v. Rest of OECD



Average Inflation Rate: EMU v. Rest of OECD



SD of Quarterly Consumption Growth Rate: 1980-2007 (2-year windows at country level, sub-sample averages):



Summary so far

- EMU countries' performance with inflation, growth, and volatility very similar to rest of OECD
- To argue we are better than without, have to argue that we would have underperformed the rest of the OECD
- Is that plausible?

Have there been (economic) surprises?

- Pre-EMU expectations
 - Moderate gains from lower transaction costs on existing within-EMU trade
 - Small increase in within-EMU trade (relative to without EMU)
 - Moderate efficiency gains from more transparent price differences
 - Some seignorage from reserve-currency status
 - Moderate losses from loss in monetary independence
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 - *Likely modest net gain/loss* (✓!)
- Give or take, expectations proved right (so far)

Important Caveat

- Great Moderation: any arrangement would have worked well in the last 10 years: ECB very lucky
- Ugly side of EMU possibly still to emerge from big asymmetric shocks, or from mounting political pressure from large aggregate shocks
- We'll learn more in the next 10 months than in the entire previous 10 years

Big surprise is political

- Ex-ante, EMU central to “unification by stealth” project
- But political unification has stalled
- Indeed, deep unpopularity of Euro may have contributed to antipathy towards Lisbon treaty and USE project more generally

Eurobarometer

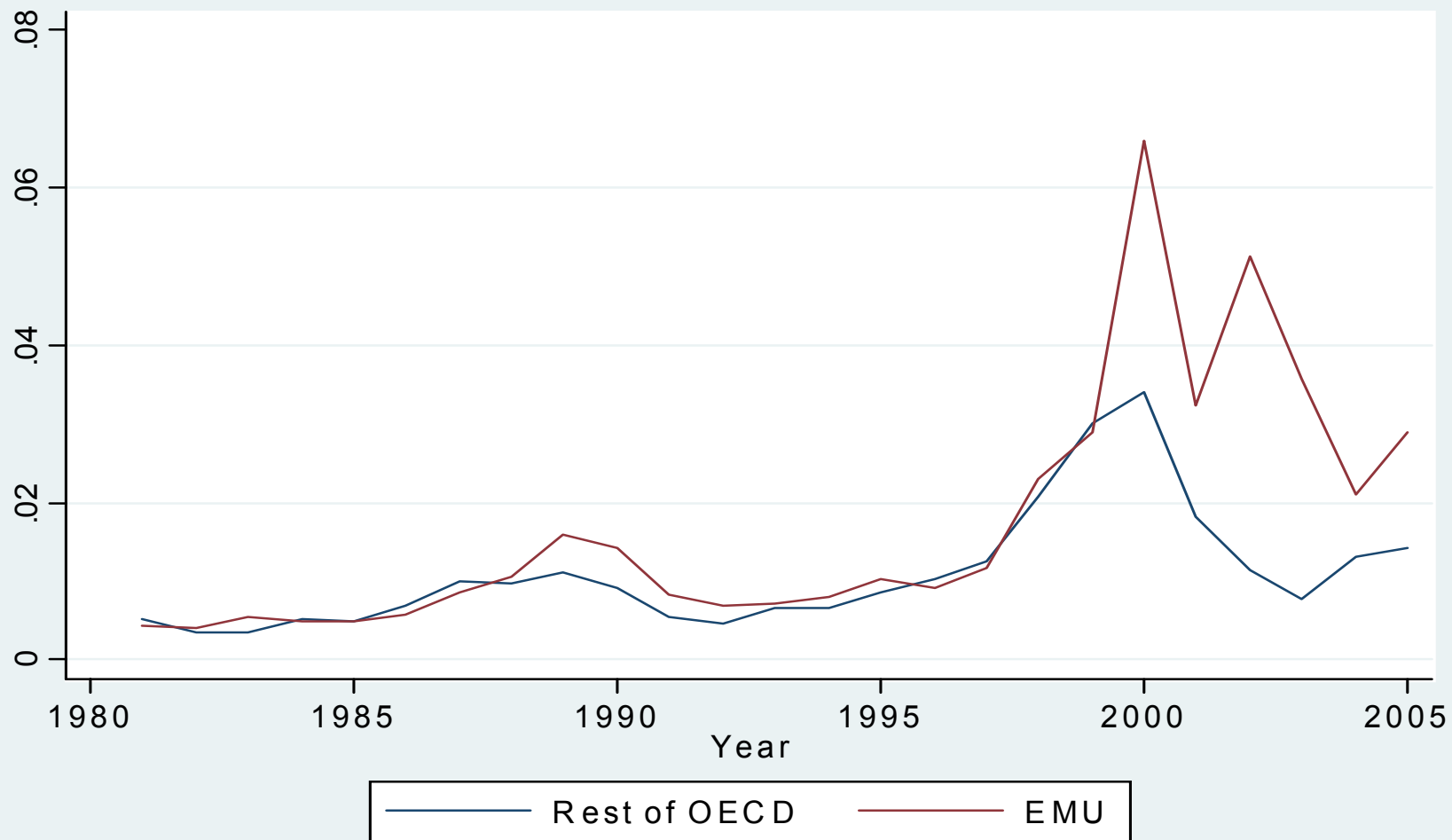
Authors: Euro increasingly unpopular. Proposed explanation: it's the lack of ECB transparency

Comment: Incredibly far fetched that publication of minutes would make Euro popular. More likely, consumers respond to lack of tangible benefits from Euro adoption (particularly in the face of inflated pre-Euro hype) and to national politicians' encouragement to blame the ECB (which would likely become even easier to do with transparency)

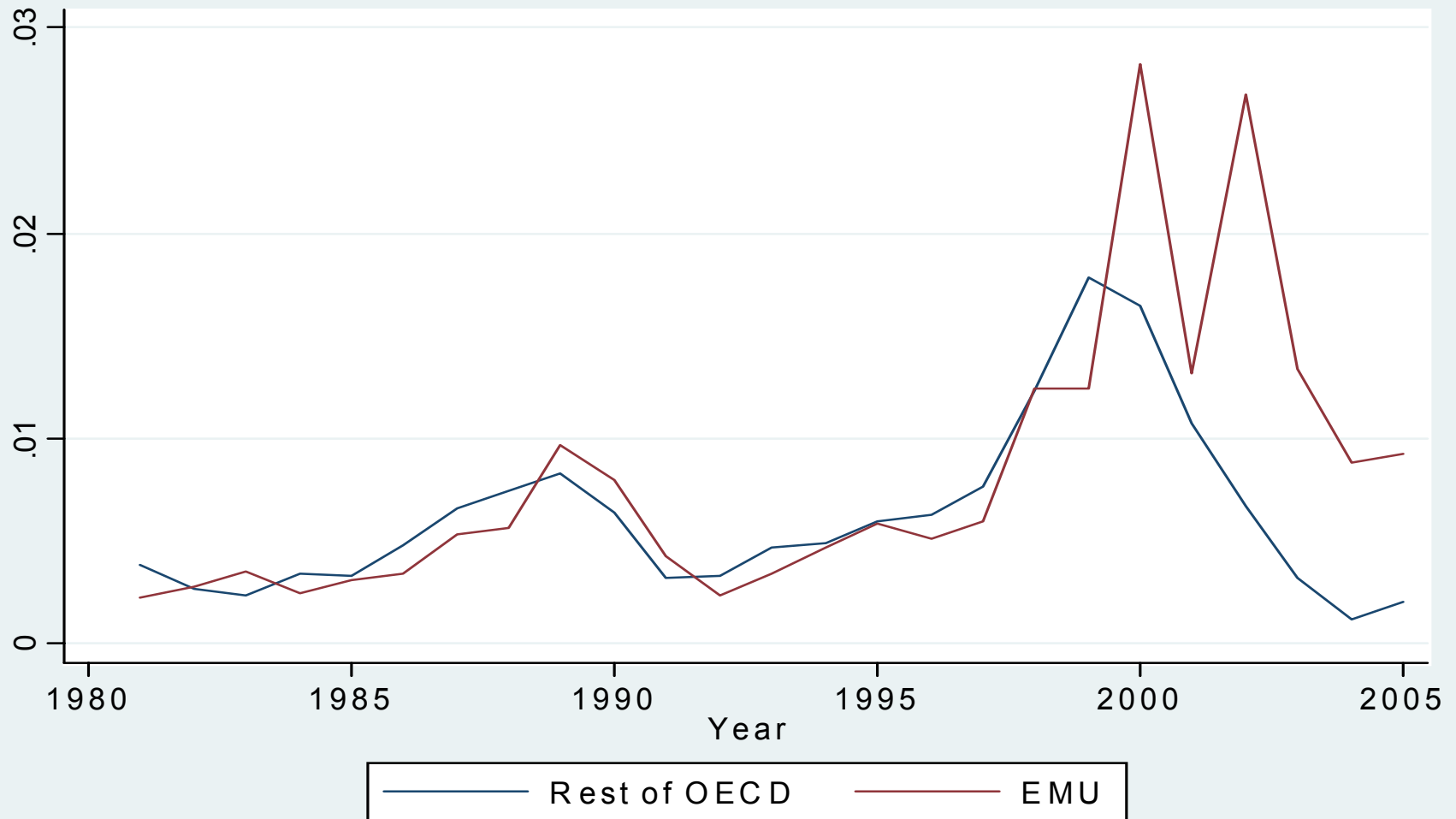
Conclusion

- EMU has probably not had first-order *economic* effects on the welfare of EMU-area citizens
- This is as expected
- But the end of the Great Moderation will be the first real test
- EMU may have had the unintended *political* effect of slowing unification drive

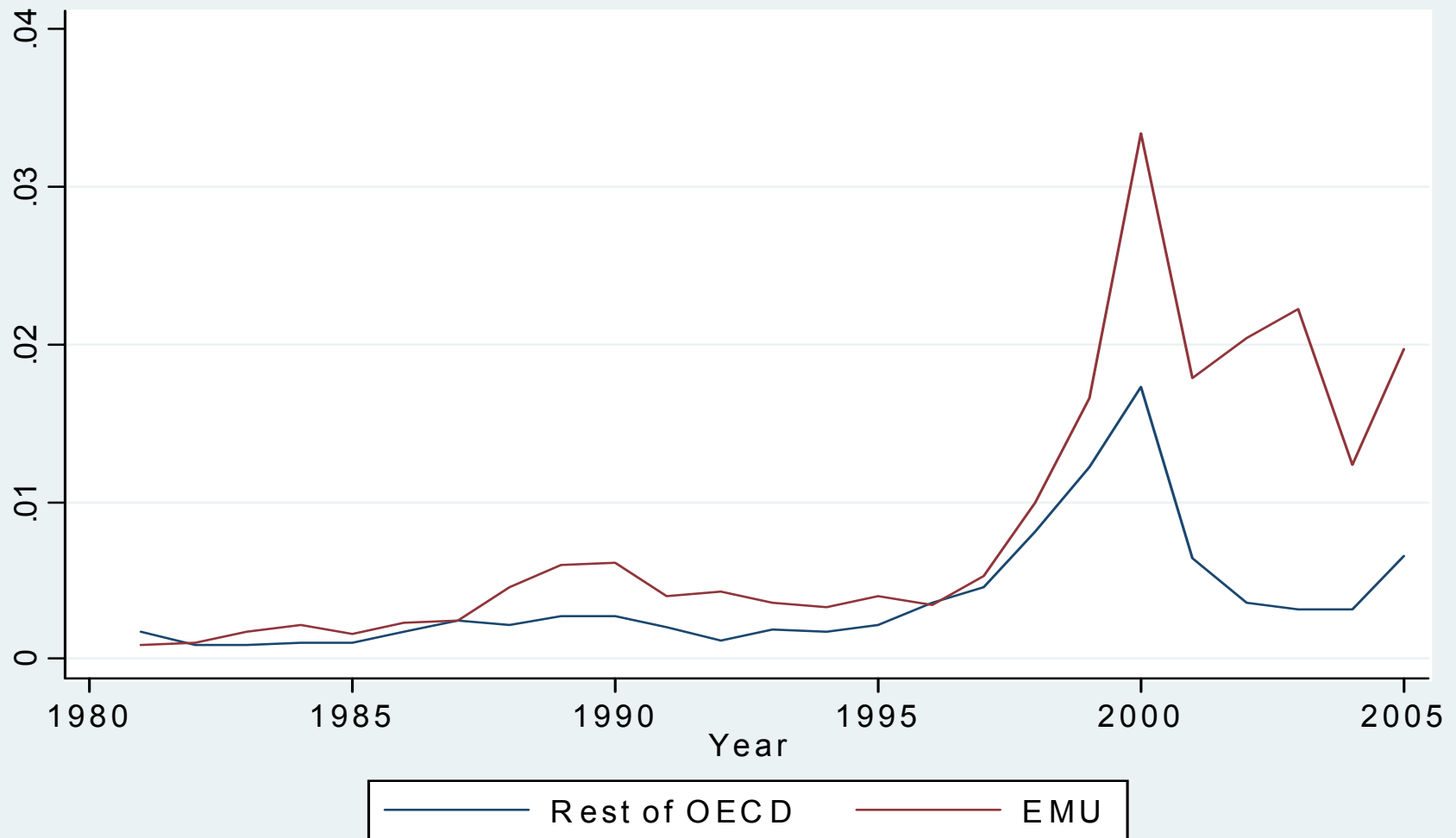
One very interesting surprise: FDI inflows (from world)



One very interesting surprise: FDI inflows (from outside EMU)



One very interesting surprise: FDI inflows (from inside EMU)



ECB credibility

Authors: (i) ECB inherited Bundesbank credibility (as reflected by inflation forecasts); (ii) puzzling, then, that credibility seems to be eroding (despite good inflation record).

Proposed explanation: ECB's continued refusal to conform to "best practice" (inflation targeting, minute publication, etc.)

Comment: Possible alternative explanations are (i) deteriorating macroeconomic environment, which increases cost of price stability; and (ii) increasing belligerence of some heads of state

Fiscal Policy

Authors: Despite stability and growth pact, fiscal policy has not become more pro-cyclical

Comment: Not entirely surprising. (i) Pact is not credible to start with, at least for politically powerful countries; (ii) Loss of monetary autonomy imparts a countervailing pro-cyclical direction to fiscal policy