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
Defining Success

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• Def. 2: Average EMU citizen better off with EMU than would have been had EMU not happened
• [Many other definitions possible, e.g. max(min)]
Defining Success

• Def. 1: It wasn’t a disaster (√)
• Def. 2: Average EMU citizen better off with EMU than would have been had EMU not happened (?)
• [Many other definitions possible, e.g. max(min)]
Are we better off?

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• (Including – and perhaps more so – for statements using formal econometric methods)
• 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):

![Graph showing the SD of Quarterly Consumption Growth Rate for 1980-2007 with 2-year windows at the country level, sub-sample averages. The graph compares the Rest of OECD and EMU regions over time.]
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
  - *Likely modest expected net gain/loss*
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) (✓?)
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  – Moderate losses from loss in monetary independence (✓?)
  – 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)
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