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Structural aspects of monetary integration: a global perspective

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Abstract

This introduction to the special issue on "structural aspects of monetary integration" relates recent debates about currency unions—in terms of Optimum Currency Area theory and of the credibility of economic policy—to structural aspects, such as the sectoral and regional distribution of production, the financial system, capital flows and the evolution of political institutions. The article presents the other papers which deal with these aspects in the context of the European Monetary Union, of debates about monetary integration in North America and disintegration in South America, and of tendencies towards monetary cooperation in East Asia.

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In his famous survey of business cycle theories, *Prosperity and Depression*, Haberler (1937, Chapter 12) proposed two alternative methods of dealing with international aspects of cyclical fluctuations in a systematic fashion. One approach would start from the assumption of two (or more) completely independent economies and proceed to introduce trade links, capital flows and "various types of monetary connections" between them. The other approach, adopted by Haberler, starts from the assumption that the whole world is

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a single closed economy and proceeds to "introduce one by one the circumstances which divide and disintegrate that economy" (Haberler, 1937, p. 407). In addition to imperfect mobility of goods (due to the uneven distribution of resources and transportation costs) and imperfect mobility of capital (due to the localization or, in modern language, the home bias of investment and finance), Haberler considered "national currency autonomy" to be the "third, perhaps the most important" disintegrating factor (p. 408). Accordingly he sketched a sequence of scenarios, starting from fully integrated systems in which the same money circulates everywhere, and eventually arriving "at the very opposite extreme to complete world unification — namely, complete independence in the monetary systems of different countries: i.e., completely free exchanges" (p. 426). To put it in modern terms, Haberler's sequence of monetary disintegration ranged from global currency union to free floating of national currencies.

For a long time, Haberler's benchmark cases may have seemed to be nothing but hypothetical extremes. The real world of Bretton Woods and after was predominantly populated with adjustable pegs, managed floating and other types of intermediary exchange rate regimes. In recent years, however, the globalization of financial markets seems to have increased capital mobility to the extent that more and more countries feel the pressure of Mundell's "impossible trinity": with liberalized capital accounts, independent macroeconomic policies become less and less compatible with fixed exchange rates. Nowadays conventional wisdom has it that policymakers must make their choice between the corner solutions of free floating, on the one hand, and monetary integration on the other.[1] In other words, financial market integration seems to have created tendencies of both monetary disintegration and monetary integration, with the latter coming in three varieties: hard pegs (by way of currency-board arrangements and the like), unilateral adoption of a common currency (dollarization, euroization, etc.), and — last but not least — multilateral adoption of a common currency in monetary unions.

Whatever one may think of this bipolarity thesis,[2] it raises some interesting questions if it is contrasted with Haberler's thought experiments. In Haberler's taxonomy, currency union and free floating are two mutually exclusive extremes. Which outcome can be expected, if there are tendencies to move towards both corner solutions in the choice of exchange rate regimes? Will the process stop at some stage where regional (and other) currency unions coexist with a number of freely floating national currencies? Or will monetary integration continue until it develops, at some point, such force that free floaters are gobbled up and financial market integration is matched by global currency unification?

The idea of a global monetary union may seem utterly fantastic,[3] but it illustrates the need for careful analysis of the determinants and scope of monetary integration (as well as disintegration) in different economic and political structures all over the world. Accordingly, the purpose of this special issue is to provide studies of relevant structural developments that

[1] For central contributions to this view, see, e.g., Eichengreen (1994), and Obstfeld and Rogoff (1995).

[2] For criticism and qualification, see, e.g., Fischer (2001), and Williamson (2001).

[3] Current common opinion is that three big currency blocs (dollar, euro, yen) with a small number of free floaters is the most probable outcome of the evolution of the international monetary system in the foreseeable future; see, for instance, Rogoff (2001).