European Monetary Integration: Past, Present, and Future
Eric J. Pentecost and André van Poeck (Editors)
Cheltenham, United Kingdom, and Northampton, Massachusetts: Edward Elgar, 2001 (229 pages)

On January 1, 2002, a new common European currency, the “euro,” began to circulate in physical form after its establishment two years before as a single currency and its use for intrabanking sector and financial market transactions. Accompanied by doubts and controversies since the first plans were put forth in 1970, the project has so far proved to be on a solid footing. The European Central Bank has been successful in maintaining price stability, and since March 2002, the euro exchange rate has recovered strongly after a period of decline against the U.S. dollar. But there are still a number of unresolved issues surrounding the euro. Critics may say that its major test is still to arrive. In European Monetary Integration, the editors E. J. Pentecost and A. van Poeck, put together a series of papers that provide a useful overview of the continuing efforts by the European Union to establish, maintain, and extend a common European currency.

The editors have done well in presenting analyses that cover the past of the system before addressing the current and future issues. The introductory essay on the historical background of a European monetary union provides a concise summary of the endeavors to seek common monetary arrangements for the politically fragmented European continent since the nineteenth century, when at the beginning of that century it was only the British pound and the French franc that existed as well-established common national currencies. Along with a paper on the political economy of transition to monetary union in Western Europe by E. J. Pentecost and a paper by F. L. Sell on the monetary union after Germany’s unification, this part includes a critical review on the theory of monetary union by A. Jacobsen and H. Tomann. As a whole, these papers in the first part of the book provide a well-balanced exposition of the formation of the institutional framework for the common single currency.

The essays covering the period from 1979 to 1999, when the transition from joint floating arrangements against the U.S. dollar to the completion of a monetary union took place, examine the different theoretical approaches to the formation of monetary unions such as the market, the institutional, and the shock-therapy approach. It is shown that while predominantly based on the gradualist-institutional approach, the formation of the European monetary union is less guided by the market approach. Instead, it was the all-at-once approach implemented by the German monetary union that provided the catalyst to go ahead seriously with the formation of a true monetary union in Europe. In particular, the paper by A. Jacobsen and H. Tomann, “The Theory of Monetary Union and EMU,” points out that the traditional criteria for delimiting an optimal currency area are not relevant when deeper economic integration has been achieved as its precondition.

Part 2 of the book presents the papers directed at the current issues of the European Monetary Union. Individual papers deal with “Monetary Policy in EMU” (H. Kempf), “Fiscal Policy in EMU” (F. Barry) and “EMU and European Unemployment” (A. V. Poeck and A. Borghijis). These papers address well-known issues and bring forth few new insights. The reader may miss analyses of more specific topics such as the institutional uncertainties of the role and workings of the European System of Central Banks and of the instruments and implementation of the monetary policy as practiced by the European Central Bank, along with analyses addressing the problems of banking and financial regulation, crisis management, and accountability. In this part, instead of including a paper on European unemployment, which is more attributable to the European welfare state than to monetary policy, an analysis on a problem with a closer link to the European Monetary System, as, for example, the role of the euro in the present international monetary context, might have served better the book’s major focus.

Part 3, which addresses The Future: Beyond 2000, is confined to the European Exchange Rate Mechanism (ERM II) and the implications for the “outs” in their relationship with the “ins” and to the exchange rate strategies of the new EU entrants. While being necessarily somewhat repetitive, as the issues are similar to those that earlier entrants into monetary union had to confront, the reader may also miss contributions to more controversial issues such as the position of the United Kingdom regarding the common currency and to the long-term prospects of the euro as a more widely used international reserve currency.

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higher labor productivity or x-efficiency, which compensates for the wage increase, causing unit costs to remain unchanged. Hence, firms’ accommodating a wage increase without any profit loss, layoffs, or price hikes results in higher and more equal, real income per capita.

Again, a significant gap in the author’s causal sequence makes these alleged benefits unlikely to materialize, especially in the form described. Specifically, the author’s causation ends up securing higher income from more working hours, not more pay per working-hour, an important difference for workers’ welfare. This labor-intensive, rather than productivity-intensive path, to higher income, unintentionally occurs from an implicit and unique interpretation of productivity.

The author measures productivity as \( \frac{Q}{L} \) and will be referred to here as “behavioral productivity.” It contrasts with the more traditional concept of productivity, \( \frac{Q}{e} \), referred to here as “neoclassical productivity.” This distinction needs explaining because Altman would argue that he has discovered additional causes of conventional productivity, not a new concept of productivity.

The numerator in both ratios measures firm output (\( Q \)). The different denominators lead to distinct concepts, ultimately undermining the hypothesized causality. After defining \( L \) as “labor input,” he consistently uses it as the implicitly or explicitly contracted labor time, to distinguish it from actual working time or effort. This makes behavioral productivity output per unit of contracted labor time (\( \frac{Q}{L} \)).

Altman then convincingly shows that behavioral productivity is a positive function of \( e \), “the quantity and quality of effort inputted into the process of production” (9, 61, 186, 204). However, with the exception of an insufficiently developed footnote (ftn.10, 118), the failure to distinguish effort from time makes quality of effort indistinguishable from productivity, making “productivity a cause of productivity.”

Perhaps due to this problem, the author consistently treats effort (\( e \)) as a quantity rather than as a quality, in the numerator of the ratio \( \frac{e}{L} \), “effort per unit of labor input” (128, 158, 187, 222). In other words, Altman uses (\( e \)) as the time that workers are acting with the intention of increasing output, as opposed to mere physical presence, or contracted labor time. Most important, this makes neoclassical productivity output per unit of effort, \( \frac{Q}{e} \), a concept overlooked in the book.

Altman argues that these latter, negative effects of wage increases do not materialize because firms’ unit production costs do not increase. He reasons that higher wages cause secure more labor and management effort due to more cooperation, trust, better nutrition, and health, and increased sense of fairness. This increased effort, in turn, causes Worker Satisfaction and Economic Performance: Microfoundations of Success and Failure

Morris Altman

Armonk, New York: M. E. Sharpe, 2001 (297 pages)

My former supervisor at a small manufacturing plant trusted us to record accurately our work hours instead of punching a time clock. She also bemused us by suggesting that we record the actual hours worked, not the hours that we were physically present at the plant. In Worker Satisfaction and Economic Performance, Morris Altman uses this time distinction to challenge a significant portion of dominant, economic theory.

While a gap remains in the author’s reasoning, neoclassical theory would improve by including any selection of this collection of fourteen, recently published journal and book articles. His “behavioral” theory, an extension of x-efficiency and efficiency-wage research, seeks to demonstrate how the traditional focus on resource allocation overlooks important causes of living standards. The working poor, however, will skeptically request more information when reading the following simplification of his argument: High-wage, fast-paced shops are preferred to lower-wage, slower-pace shops. Therefore, codify the former in law, and enforce this outcome with additional regulatory personnel, financed by taxing the wage premium.

His precise argument is more interesting, concluding that market competition fails to secure maximum living standards. Combining this competition, however, with legislated wage increases does secure higher and more equal income. He would increase wages through several paths: minimum wage legislation; stricter regulation against wage discrimination, especially gender discrimination; increased union protection; and increasing the global ratio of adult to children laborers. Neoclassical theory recommends more indirect policies for increasing wages, because these statutory increases raise firms’ unit costs, resulting in inflation eroding the initial nominal wage increase, unemployment from input substitution, more inequality, and reduced aggregate output.

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—Philosophy, History, and Methodology of Economics

Reviews

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