

unions and the inertia of state enterprises. French officials for example have declared their reluctance many times to adopt the UK/American flexible approach to labour markets. Some labour market deregulation successes in recent years in Sweden and Denmark, and the beginning privatization of Deutsche Telecom may be the forerunners of a more widespread market-oriented approach in Europe. This will no doubt be an arduous process and the benefits will be seen only after some years.

4. Implications for the International Financial System

4.1. The EU and International Financial Institutions

The IMF

The core function of the IMF is international monetary co-operation, and its main operations involve currency stabilization, exchange and monetary surveillance, and balance of payments assistance. The EMU will affect all of these issues as they relate to European participants. Each country also pays quota based on financial, economic and political criteria, and has representation on the Fund's Board. Given that there would only be only one European central bank, one monetary policy, and one exchange rate, EMU should legitimately imply a review of all these arrangements.

IMF surveillance, to take an example, focuses on a member's monetary and fiscal policies. If monetary policy is run by the independent ECB and fiscal policies are governed by a post-EMU Stability Pact, surveillance of individual EMU members will have to be significantly different from that for other members of the IMF.

The Bank for International Settlements

This "central bankers club" among other things co-ordinates front-line assistance in the form of bridge loans in times of currency and balance of payments crises, recommends bank capital standards, and analyzes implications of evolving payments systems, including issues of systemic risk. It has been rather Euro-centric (it was originally set up to handle German war reparations), but recently has expanded membership to include a number of Asian developing country central banks. Alexandre Lamfalussy, former president of the BIS, now heads the EMI, forerunner to the ECB.

Organizational structures are less formal and governments typically do not get involved in BIS issues (except through their central banks). However EMU could have a major impact on its functions for the reasons cited for the IMF.