

hedging for risk averters disappear.⁶ These will be insignificant compared with the year to year changes experienced in traditional cross country measures of exchange rate adjusted price and cost competitiveness (relative unit labour costs and relative producer prices). The gains will be set against significant one-time up front costs in preparing for and implementing EMU, making it very difficult to discern any net competitiveness impact from EMU for a considerable period, if at all. Since exchange rates among the North American, European, and Asian regions will continue to float, emerging differences in competitiveness across these regions, including any minor gains from EMU in Europe, can be accommodated by exchange rate movements.

EMI and EU documents present the case for EMU based on a number of advantages for the European economy. They are categorized as follows:

- lower transactions costs. The EU quantifies the savings from EMU as 0.4% of GDP, an amount which appears rather large.⁷ However even this amount is small in comparison with traditional measures of international price and cost competitiveness, which can easily vary by several percent per year.
- elimination of currency risk in intra-EU transactions.
- stimulus to investment, growth, and employment, through better fiscal and monetary policy management, lower interest rates, and enhanced confidence. The EU argues that the risk premia built into European interest rates will be eliminated with EMU, resulting in lower interest rates.
- a contribution to enhanced international monetary stability;
- "enhanced joint monetary sovereignty" - constitution of a pan- European monetary policy institution.

Not discussed here by the EU is the impetus which EMU should provide to the harmonization of legislation and the deregulation of goods, services and labour markets. The financial sector in particular could quickly benefit from deeper and more liquid money and bond markets, consolidation of stock exchange activity, and Europe-wide banking. Remaining national rivalries here would have to be overcome. Regarding labour market deregulation, governments will have to address difficult political issues in the face of the intransigence of

⁶The cost of hedging in the exchange markets as represented by the bid-offer spread on currency forwards is in the order of hundredths of a percent.

⁷This can be interpreted as a one-time upward adjustment to the level of GDP. The UK Treasury, in commenting on the size of the 0.4% estimate, notes: "For a large trading nation such as the UK, with well-developed and competitive financial markets, the actual saving could be considerably smaller than this."