- Relaxing the interpretation of the convergence criteria will permit the entry of a greater number of EMU participants, but will risk lessening policy credibility in the post-EMU world.

- The decision to delay the startup of monetary union will improve the chances of having a greater number of participants, but it would risk creating considerable uncertainty about the political commitment to actually proceed with the EMU and would require an amendment to the Maastricht Treaty.

Among the many commentators with views on EMU, George Soros (a well-known hedge fund manager) and Rudiger Dornbusch (international monetary economist) both wrote recent articles critical of the Maastricht approach to economic convergence. Soros feels Germany and France should both disregard Maastricht and reflate their economies together. Dornbusch suggests that countries should not join EMU until they demonstrate that their economies can perform with a structural unemployment rate of, say, 6% or less, which would require massive deregulation of European labour markets.[3]

2.2 EMU as an Optimal Currency Area

An optimal currency area is a geographical and economic unit in which one currency and one monetary policy will operate efficiently. The traditional literature suggest four criteria for judging whether regions should form a currency area: mobility of factors of production; flexibility of prices and wages; openness to trade; and diversity of production. Regions that have relatively closed economies, narrow product ranges, strong price and wage rigidities, and low external mobility of labour and capital should not join monetary unions, but should instead retain a separate currency area and permit exchange-rate flexibility.[4]

A casual survey of Europe suggests that:

- regarding factors of production, capital is mobile but labour is less so;
- product prices are flexible, but wages and labour markets are not;
- trade is open, except for certain commodities (agriculture);
- production is generally diversified, except in some smaller countries on the periphery of Europe.

A Bank of Canada study (Chamie et al, 1994) looked at the issue of Europe as an optimal currency area, concluding that there are three country groupings. Germany/Switzerland form a core; this plus Benelux, France, Spain, and the UK form a secondary grouping, and then there is a periphery of Greece, Italy, Norway, Portugal, and

[3]Both wrote in *Foreign Affairs*, September 1996.

[4]Taylor, C. *EMU 2000: Prospects for Monetary Union*, p. 22.