Reflection Paper on the Deepening of the Economic and Monetary Union

Discussion

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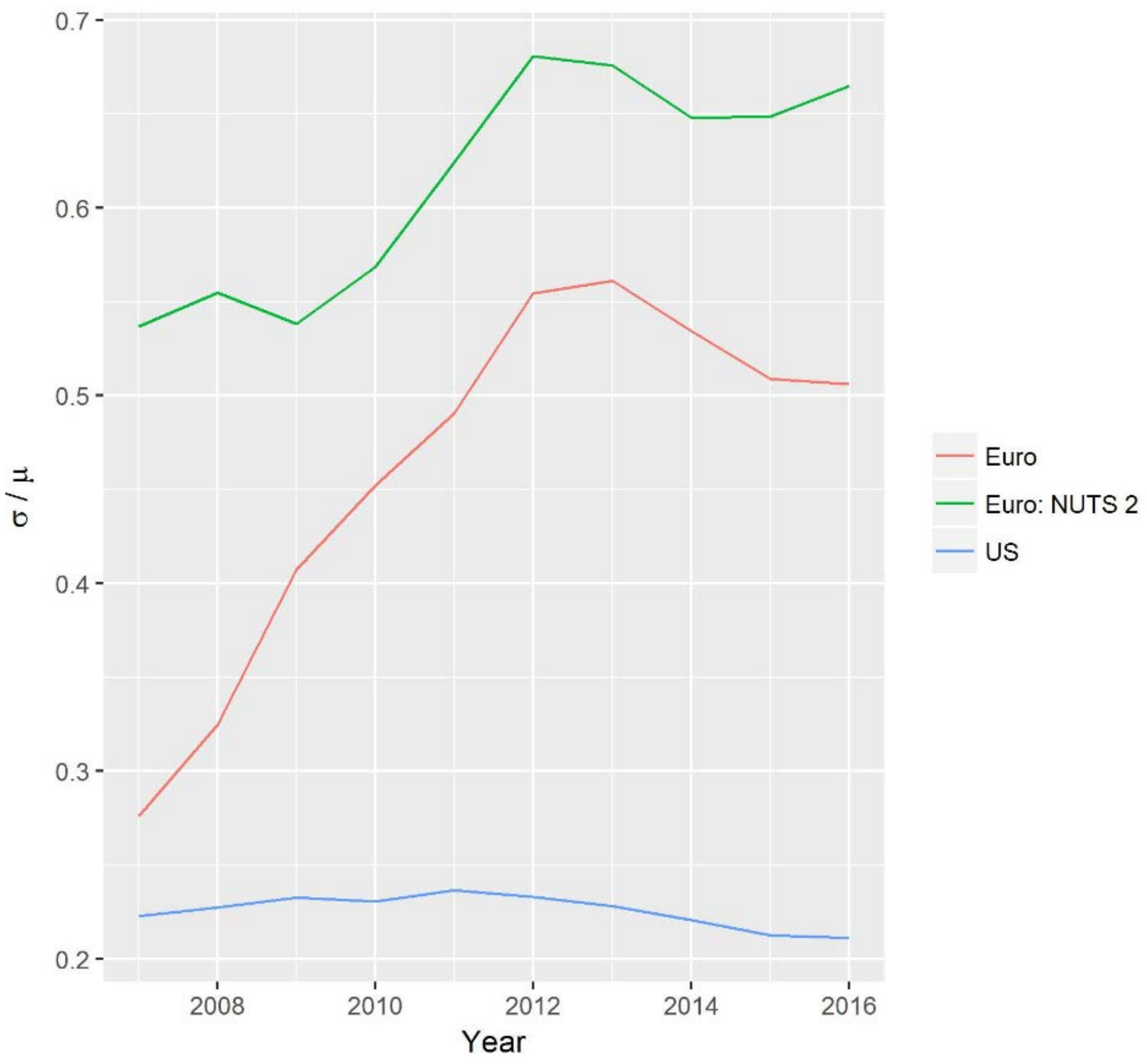
Convergence and Risk-Sharing

- Monetary union with fiscal-policy restrictions makes business cycle convergence attractive
- Business cycle convergence reduces opportunity for risk-sharing but strengthens monetary policy
- Synchronization does not eliminate variation in amplitude and can plausibly increase it

Unemployment Rates: Divergence



Labor Mobility

	US States		EMU Members	
	(1)	(2)	(3)	(4)
	log (Net Migration Flow)	log (Net Migration Flow)	log (Net Migration Flow)	log (Net Migration Flow)
Log Unemployment Differential	0.0283***	0.0252**	0.104***	0.110***
	(0.0109)	(0.0102)	(0.0093)	(0.0058)
Observations	12,350	12,189	1,221	1,219
R-squared	0.335	0.579	0.616	0.878
Origin FE	YES	NO	YES	NO
Destination FE	YES	NO	YES	NO
Origin-Destination FE	NO	YES	NO	YES
Year FE	YES	YES	YES	YES

Note: Standard errors in parentheses. *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Source: ACS, BLS, OECD; 2005-2014

Stabilization and Redistribution

- Monetary union with fiscal-policy restrictions makes off-budget stabilizers attractive: UI reinsurance, investment insurance
- Absence of “real” convergence makes redistribution attractive to the social planner
- Open redistribution is likely to run into immediate political constraints, while covert redistribution mechanisms there are safe assets in the euro zone may lead to trouble down the road