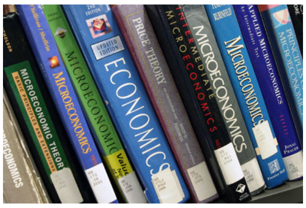
Other relevant scientific publications



- Mazier, Jaques & Pascal Petit (9-2013), ***"In search of sustainable paths for the Euro zone in the troubled post-2008 world"***, Cambridge Journal of Economics (UK)
  http://cje.oxfordjournals.org/content/37/3/513.full.pdf

  Introduction:

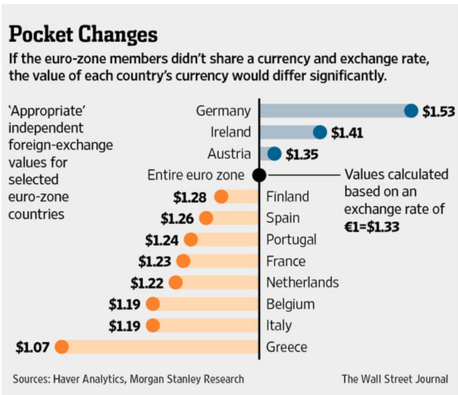
  In this paper Mazier & Petit conclude that:

  "Given the costs of the structural diversity of the eurozone in terms of overvaluation of the euro for a large sample of countries, the financial federalism that seems to emerge from the ongoing negotiations under the continuing speculative attacks of financial markets may well be inoperative. Two solutions appear as sustainable paths for the euro. One is some kind of budgetary federalism, but it is conditioned by a significant rise in political support for a committing federalism. The other, which accommodates a multispeed Europe, is less demanding politically, but faces a difficult transition period and requires some restriction in the capital mobility to preserve financial stability."

- Morgan Stanley (4-2-2013), ***"What If the Euro Overschoots?"***, Morgan Stanley Research Europe (UK)
  http://media.rtl.nl/media/financien/rtlz/2013/0802eurusd.pdf

  Introduction:

  In this research paper, Morgan Stanley assess the implications of a Euro overshoot. A material Euro overshoot could derail the tentative stabilisation in economic activity and the ongoing recovery in risk markets. A key policy implication of a material Euro overshoot would be that the debate about ECB rate cuts would be reopened. In addition, a much stronger Euro could also challenge the positive sentiment vis-a-vis the periphery. In this paper Morgan Stanley visualizes that the *external* exchange-rate of the Euro vis-à-vis the US-dollar (and other foreign currencies) is not 'fair value' for any Euro-country at all. The exchange-rate of the Euro is much too expensive for the Southern European Euro-countries (that therefore have lost their international competitiveness), and too cheap for some other Euro-countries, especially for Germany. And exactly this visualizes the *internal* competitive imbalances within the Euro-zone as well.



  The unfair value of the Euro for all Euro-countries, according to Morgan Stanley's 2013 PPP-analysis of the relative changes in competitiveness for each country since they joined the Euro -- Because only The Netherlands entered the Euro with its national currency substantially (13%)undervalued (see: http://www.thematheosolution.eu/PPP.pdf), *for the Netherlands the 'fair value' euro exchange rate is now $1.38*.

  See also: ***"Euro's Recovery Not Without Pain for Some"***, Wall Street Journal, February 7th, 2013
  http://online.wsj.com/article/SB10001424127887324590904578290110164764612.html

  Comment:

  Please note that, because the Netherlands entered the Euro with an 13% undervalued Dutch guilder (according to PPP-analyses), for the Netherlands the 'fair value' euro exchange-rate of $1.22 in this chart is incorrect. Thus that 'fair value' euro exchange-rate should be and is $1.38 .

- Schuster, Ludwig (1-2013), ***"Parallel Currencies for the Euro zone"***, Veblen Institute for Economic Reform (France)
  http://www.veblen-institute.org/IMG/pdf/schuster_parallel_currencies_for_the_eurozone_final.pdf

  Introduction:

  In this study Ludwig Schuster (founding member and coordinator of Sustainable Money Working Group – Berlin, and Money Network Alliance – MonNetA, and one of the leading international experts on the field of complementary currencies) gives an overview of various proposals for parallel currencies in the Euro zone. It provides an analysis of the purposes and aims, in particular with respect to the economic, political and monetary objectives. In addition the different concepts for a parallel currency are compared, focusing on what it is that makes them different. Schuster recalls that the chronology 'Euro first, economical convergence and political institutions later' was already questioned by many economists *(such as the OPTICA Group to the European Commission-1976, Vaubel-1978, Graumann-1979)* long before the introduction of the Euro. At that time monetary experts advised therefore to first introduce the

European common currency complementary to the then still existing national currencies, to soften the transition to complete integration and leave the nation states enough room for manoeuvre until a sovereign European Framework had been fully established. Schuster concludes that as we now know the European political elite unfortunately went down a different path. Schuster ends this study with the conclusion that parallel currencies are seen by all proponents as a measure to strengthen the national economies, offering additional monetary flexibility and helping to stabilise the European economy.
This study was first published in German: Schuster, L (2013) *Parallelwährungen für die Eurozone – Überblick und Versuch einer Systematisierung,* in: Die Parallelwährung – Optionen, Chancen, Risiken, conference report of BVMW - The German Association for Small and Medium-sized Businesses, Jan 2013.
http://www.bvmw.de/uploads/media/die_parallelwaehrung.pdf

Comment:

Though *the ECU-ERM proposition* by André ten Dam (independent Euro-researcher) is not exactly a 'parallel currency' model, Schuster considers the ECU-ERM model 'related' to the general 'parallel currency' model.

- Eijffinger, Sylvester & Rob Nijskens (12-2012), ***"Banking Union and a Single Banking Supervisory Mechanism"***, European Parliament (Part of the compilation PE 492.449 for the Monetary Dialogue)
http://www.europarl.europa.eu/document/activities/cont/201212/20121213ATT57990/20121213ATT57990EN.pdf

Introduction:

In this paper, requested by the European Parliament's Committee on Economic and Monetary Affairs, Prof. Sylvester Eijffinger (University of Tilburg and Member of the Panel of Monetairy Experts of the European Parliament) and Dr. Rob Nijskens evaluate the political decision regarding the attribution of banking supervision to the ECB. They conclude that *Now the ECB will become responsible for micro-prudential supervision there are consequences for its primary mandate*; separating these two may be necessary. Conceptually, both functions are related and a mutual prerequisite in the short but especially the long term. However, clear *conflicts of interest* may arise *when the ECB is both bank supervisor and monetary policymaker*; we cannot be sure which of the two goals will prevail. To solve this *we need to separate the two functions* by either setting up a Supervisory Board, operating independently *within the ECB*, or by appointing national supervisors as alternates to NCB governors in the Council. In both cases, a member of the ECB's Executive Board should be responsible for supervision and the ECB should have a new solvency instrument orthogonal to the interest rate, for early intervention in potential problem banks. *This is, however, not the ultimate solution to the problem*, as ECB president Draghi will be ultimately responsible for both monetary policy and supervision. And *there are no Chinese walls in the head of ECB president Draghi*, who will be ultimately responsible for monetary policy as well as banking supervision. *In the end, both supervision and monetary policy should be independent from each other as well as from politics, coupled with clear accountability. Only when supervision is not influenced by politics it can be optimal.*

Comment:

'The Matheo Solution (TMS)' states that banking supervision should (have) better be(en) attributed to the European Banking Authority (EBA) with the following arguments:

- Banking supervision is already the task of the EBA.
- The activities of the EBA are not limited to European Euro countries.
- 'ECB banking supervision' includes a 'conflict of interest within the ECB (see also Eijffinger & Nijskens).

Then the EBA should directly supervise the European system banks (in consultation and in coordination with the respective existing national supervision authorities). And the EBA should delegate the banking supervision of the smaller European banks to the respective national supervision authorities, which will act according to general 'EBA-standards' and in consultation and under supervision of the EBA. For these tasks the EBA then should be properly equipped.

- Engelbert Stockhammer and Dimitris Sotiropoulos (7-2012), ***"The (Devastating) Costs of Internal Devaluation"***, Social-Europe.eu
http://www.social-europe.eu/2013/04/the-costs-of-internal-devaluation/?utm_source=dlvr.it&utm_medium=twitter

Introduction:

In this extract from their 2012 research paper, Prof. Engelbert Stockhammer (Professor of Economics at Kingston University in London) and Dr. Dimitris Sotiropoulos (Lecturer in Economics at Kingston University in London) state that the results of their research clearly indicate staggering amounts for the adjustment costs of the internal devaluation strategy. The economic costs of this adjustment to the GIIPS countries are equivalent to or larger than the output loss of the Great Depression. These costs are so large that there is only one conclusion: deflationary adjustment in the deficit countries will have devastating economic and social effects. If the Euro area is to survive it has to rebalance. If this is to be done without strangulating the deficit countries, the surplus countries will have to do a much larger part of the adjustment. There are two ways of rebalancing: a deflationary and an inflationary one. Inflationary adjustment involves higher wage growth and expansionary policies in the surplus countries. An adjustment of the surplus countries would increase growth and it would come with higher inflation, but it would allow rebalancing without a Great Depression in parts of Europe.

- ***"Wolfson Economics Prize 2012"***, Policy Exchange (4-2012) (UK)
http://www.policyexchange.org.uk/component/zoo/item/wolfson-economics-prize
and
http://www.policyexchange.org.uk/images/WolfsonPrize/wolfson%20economics%20prize%20winning%20entry.pdf

Introduction:

The question (by Lord Wolfson) applicants were asked to answer is*: "If member states leave the Economic and Monetary Union, what is the best way for the economic process to be managed to provide the soundest foundation for the future growth and prosperity of the current membership?"*

The Capital Economics team (Roger Bootle and others) are declared the winner. They conclude:

"The optimal re-configuration of the euro-zone would be a move to a smaller currency union incorporating the 'core' Northern economies of Germany, Austria, the Netherlands, Finland, and Belgium. The economic case for France joining this group is not very strong, but political considerations might deem that it should do so anyway. We do not subscribe to the view that the peripheral economies should remain or join together in a Southern currency union. Their diversity suggests that they should all return to their own national currencies, though efforts should clearly be maximised to limit the economic disruption associated with the transition to this position. A two step process, involving first the departure of the core economies into a Northern euro, and then a gradual return of the Southern economies to national currencies, may have some merits."
http://www.policyexchange.org.uk/images/WolfsonPrize/leaving%20the%20euro%20a%20practical%20guide%20summary.pdf

Comment:

The dismantling of the present Euro Pact in whatever way is a proper but rigid way to combat the Euro crisis. Because according to the EU-Treaty the Euro is the *sole* legal tender in all Euro countries, for the implementation of the dismantling proposal a EU Treaty change is required (which will take years, if it can be achieved at all). Therefore the dismantling proposal needs the use of *the TMS-formula* by Ten Dam (of separating the unit-of-account function from the medium-of-exchange/legal-tender function of money) for a swift and smooth implementation.

- Dumas, Charles (5-3-2012), ***"The Netherlands & the Euro"***, Special Report Lombard Street Research (UK/NL)
http://www.pvv.nl/images/stories/Netherlands_and_the_Euro_-_Full_Report_Final.pdf

Introduction:

In this study Dr. Charles Dumas (Lombard Street Research) analyzes the fundamental flaws of the present Euro Pact, the debt crisis in the Southern Euro-countries and Ireland, the damage done by the Euro to the Netherlands and Germany from Euro membership, the superior performance in the past 10 years of non-Euro-countries Sweden and Switzerland, and the benefit to the Netherlands from quitting the Euro as soon as possible. This study was commissioned by the euro-sceptic Dutch political party *'Partij voor de Vrijheid (PVV)'*, which is represented in Dutch parliament., and which proclaim that the Netherlands should abandon the Euro, preferable together with Germany or otherwise by herself alone.

Comment:

Unfortunately Dumas was not aware of the existence of the ECU-ERM of TMS. The ECU-ERM achieves the same goals as Dumas is searching for: national orientated monetary policies. However the ECU-ERM combines that with the clear advantages of the common European currency such as: monetary stability and the convenience of the Euro as legal tender throughout the Euro zone. Therefore the ECU-ERM model looks superior.

The dismantling of the present Euro Pact in whatever way is however a proper but rigid way to combat the Euro crisis. Because according to the EU-Treaty the Euro is the *sole* legal tender in all Euro countries, for the implementation of the dismantling proposal a EU Treaty change is required (which will take years, if it can be achieved at all). Therefore the dismantling proposal needs the use of *the TMS-formula* by Ten Dam (of separating the unit-of-account function from the medium-of-exchange/legal-tender function of money) for a swift and smooth implementation.

- Boothroyd, Rachael (13-2-2012), ***"Dumping the Dollar? Towards a Regional Currency in Latin America?" ALBA Bloc Advances towards Alternative Economic Model"***, Global Research
http://www.globalresearch.ca/dumping-the-dollar-towards-a-regional-currency-in-latin-america-alba-bloc-advances-towards-alternative-economic-model/29257

- ***"Historical Echoes: When Virtual Money Saved the Day"*** , Federal Reserve Bank of New York (Research Library), 7 October 2011 (USA),
http://libertystreeteconomics.newyorkfed.org:80/2011/10/historical-echoes-when-virtual-money-saved-the-day.html
and
http://www.npr.org:80/blogs/money/2010/10/04/130329523/how-fake-money-saved-brazil

- Saint-Etiënne, Christian (2009), ***"The End of the Euro?"***, Bourin Editors (France)

Introduction:

In this book Prof. Christian Saint-Etiënne (University of Paris-Dauphine, Conseil d'analyse économique and Conservatoire national des arts et métiers) explains why - on second thought - he has doubts about the lasting power of the single European currency and thinks it might be wise to see it split into two economic zones. Interestingly, Saint Etiënne was at first an supporter of the 'one-size-fits-all' Euro Pact, but later he changed his mind.

"…I don't see an end to the euro. But dividing the single currency into two zones could possibly be desirable, because as it stands, the zone is not uniform. The first zone could comprise the producing countries (The Netherlands, Austria), grouped around Germany. The second could gather the countries with trade gaps around France. ….This "southern" euro, as I see it, would not be a "club med", and Greece, which has always lied and claimed ignorance of the consensus around the reduction of budget deficits, would not have a place in this. So, we would have two euros where the parity varies, a bit like the American dollar and the Canadian dollar…."

See also: ***"The Euro zone lacks ingredients to last"*** , Le Figaro (interview), May 11th , 2010 (France)
http://plus.lefigaro.fr/note/the-euro-zone-lacks-the-ingredients-to-last-20100511-198648
and: ***"The euro cannot continue as it is"***, Libération (interview), July 12th, 2011 (France)
http://www.ufppc.org/us-a-world-news-mainmenu-35/10463-translation--interview-the-euro-cannot-continue-as-it-is.html

Comment:

This 'North/South Euro' proposal is the most simple, effective and definitely well known (see also prof. Hans-Olaf Henkel) but rigid approach to combat the Euro crisis. Rigid because it divides Europe in two and it lacks the monetary 'flexibility' on a national member-state-level which Ten Dam's TMS (or a return to national currencies) does offer. And, because according to the EU-Treaty the Euro is the *sole* legal tender in all Euro countries, for the implementation of the 'North/South Euro' proposal a EU Treaty change is required (which will take years, if it can be achieved at all). Therefore the 'North/South Euro' proposal needs the use of *the TMS-formula* by Ten Dam (of separating the unit-of-account function from the medium-of-exchange/legal-tender function of money) for a swift and smooth implementation.

- Goodhart, Charles (2011), ***"The European Collaps of 2012/13"***, Special Paper 201, LSE Financial Markets Group (UK)…..
http://www2.lse.ac.uk/fmg/workingPapers/specialPapers/PDF/SP201.pdf

Introduction:

In this fiction paper Prof. Charles Goodhart (Professor Emeritus of Banking and Finance at the London School of Economics and Director of the Regulation and Financial Stability Research Programme at the Financial Markets Group) describes that the Euro wil explode in 2013 and will be reduced to something like the northern core through a process of the southern countries leaving, either individually or *en bloc.*

- Sinn, Hans-Werner & Timo Wollmershäuser (24-6-2011), ***"Target-Kredite, Leistungsbilanzsalden und Kapitalverkehr: Der Rettungschirm der EZB Future of the Euro Area"***, Ifo Schnelldienst 2011, Sonderausgabe, 24. Juni 2011 (Germany)
http://www.cesifo-group.de/ifoHome/publications/docbase/details.html?docId=16042389

- Sinn, Hans-Werner (8-2010), ***"Rescuing Europe"***, IFO Institute, Special Issue CES ifo August 2010 (Germany)
http://www.cesifo-group.de/DocCIDL/Forum-Sonderheft-Aug-2010.pdf

- Smallwood Christopher (11-7-2010), ***"Why the Euro zone needs to break up"***, Capital Economics (UK)
  http://www.thematheosolution.eu/Economics.pdf

- Eichengreen, Barry (2-2010), ***"The Breakup of the Euro Area"***, Chapter in ''Europe and the Euro" (pages 11-51), NBER Working Paper (USA)
  http://www.nber.org/chapters/c11654

- Connolly, Bernard (7-4-2009), ***"Germany and the EMU Ponzi Scheme"***, GaveKal Research (Hong Kong)
  http://blog.turgot.org/public/documents/Connolly%20Eurozone.pdf

  Introduction:

  In this visionary paper (one of) the greatest EMU and Euro expert Dr. Bernard Connolly (Connolly Global Advisers and former European Commission Head Economist 'European Monetary System') predicts that the 'One-Size-Fits-All' Euro Pact can not and will not work for the divergent Euro-countries. Until the global financial crisis began, according to Connolly the European monetary union was perhaps the most egregious example in the world of a macro Ponzi game. Because of the lack of competitiveness Euro-countries like Spain, Greece, Portugal, Italy and France have developed current-account-deficits (cads) and the debt of these countries is held by the market. But this situation is not sustainable. The reason for these cads is 'monetary union': the lack of currency depreciation. Deflation will accelerate, real interest rates will rise, debt burdens will become unbearable and bankruptcies and mass unemployment inevitable. Not only the economic and political fabric but also the social and political fabric will become increasing at risk of breaking down. Withdrawals from the Euro Pact are inevitable, but will not be accepted by the European political elite. Because unfortunately the personal careers and ambitions of the European political elite are completely tied up with 'Europe' and its most visible manifestation 'monetary union'. And because of the European political elite's ignorance and stubbornness the cads will be pushed to the very brink of economic, financial, social and political collapse. The cads can then only be saved by the current-account-surplus countries by breaking the Maastricht Treaty's 'No-Bail-Out' rule. For the Euro (zone) to survive in the surplus Euro-countries would have to permanently transfer - annually (every year for ever) - something like 7% of their joint GDP (or, on average, 16% of their budgetary receipts) to the cads. Not by means of loans but by means of grants, permanent transfers. According to Connolly this would neither be bearable nor acceptable for the German people. And because the bail-outs only make things worse withdrawals will finally occur, either by the surplus countries or by the cad countries, in order to make currency depreciation possible for the cad countries. Connolly ends this paper by saying: *"The temptation to bury one's head in the sand is strong. But there has been too much ignorance about monetary union. And ignorance will not remain blissful for much longer."*

  Bernard Connolly

  Comment:

  Bernard Connolly has been warning for years that Europe was heading for disaster with the 'One-Size-Fits-All' Euro Pact. As a European Union economist in the early 1990s, he helped design the common currency's framework, but then he was dismissed (in fact kicked out) after he expressed his turncoat views to the European project 1 day before the release of his famous book "The Rotten Heart of Europe: The Dirty War for Europe's Money" (1995). An appeal against his dismissal to the European court of justice was unsuccessful. In one of the most bizarre, shocking and hilarious rulings the European court stated that the European Union can lawfully suppress political criticism of its institutions and of leading figures, sweeping aside English Common Law and 50 years of European precedents on civil liberties. In 1998, just months before the Euro's introduction, he predicted that at least one of Europe's weakest countries would face a rising budget deficit, a shrinking economy and a "downward spiral from which there is no escape unaided. When that happens, the country concerned will be faced with a risk of sovereign default." Connolly is one of the few top experts on EMU and the Euro. The publication of *the Rotten Heart of Europe* led the Wall Street Journal Europe to name Bernard as one of its outstanding Europeans of the year in 1995 and in March 2001 he received the Frøde Jakobsen prize, awarded in Denmark for outstanding moral courage in public affairs. More recently, Bank of Canada Governor Mark Carney has identified Bernard Connolly as one of the very few economists who predicted the current global economic and financial crisis. As of early 2013 he continues to have a negative view on the euro.

  See also: ***"Euro court outlaws criticism of EU"***, The Telegraph, March 7th, 2001
  http://www.telegraph.co.uk/news/worldnews/1325398/Euro-court-outlaws-criticism-of-EU.html
  and see: ***"Words of a Euro Doomsayer Have New Resonance"***, The New York Times, November 17th, 2011
  http://www.nytimes.com/2011/11/18/business/global/the-rise-of-a-euro-doomsayer.html?_r=2&pagewanted=print
  and see: ***"Why the Euro Crisis isn't over"***, The Wall Street Journal, February 22th, 2013
  http://online.wsj.com/article/SB10001424127887324445904578285503854758408.html

- Reinhart, Carmen & Kenneth Rogoff (4-2008),***"The Forgotten History of Domestic Debt"***, Working Paper 13946, National Bureau of Economic Research (NBER) (USA)
  http://www.nber.org/papers/w13946

  See also: ***"A Study That Set the Tone for Austerity Is Challenged"***, The New York Times, April 16th, 2013
  http://economix.blogs.nytimes.com/2013/04/16/flaws-are-cited-in-a-landmark-study-on-debt-and-growth/?ref=economy

- Eichengreen, Barry (9-2007), ***"The Breakup of the Euro Area"***, NBER Working Paper No. 13393 (USA)
  http://www.nber.org/papers/w13393

  Introduction:

  In this 2007 research paper prof. Barry Eichengreen (University of California, Berkeley and NBER research associate) preclaimed thar the Euro Area might break up.

  "The possibility that the euro area might break up was being raised even before the single currency existed. These scenarios were then lent new life five or six years on, when appreciation of the euro and problems of slow growth in various member states led

politicians to blame the European Central Bank for disappointing economic performance. Highly-placed European officials reportedly discussed the possibility that one or more participants might withdraw from the monetary union. How seriously should we take these scenarios? And how significant would be the economic and political consequences? It is unlikely, I argue here, that one or more members of the euro area will leave in the next ten years; total disintegration of the euro area is even more unlikely. While other authors have minimized the technical difficulties of reintroducing a national currency, I suggest that those technical difficulties would be quite formidable. Nor is it certain that the economic problems of the participating member states would be significantly ameliorated by abandoning the euro. And even if there are immediate economic benefits, there would be longer-term political costs."

See also: Eichengreen, Barry (13-12-2012), ***'The Euroless Union?'***, Project Syndicate
http://www.project-syndicate.org/commentary/can-the-eu-survive-without-the-euro-by-barry-eichengreen

- Buiter, Willem (1-2007), ***"Is Numérairology the future of monetary economics? - Unbundling Numéraire and medium of exchange through a virtual currency and a shadow exchange rate"***, NBER Working Paper (USA)
  http://www.nber.org/papers/w12839.pdf?new_window=1

  Introduction:

  In this 2007 research paper Prof. Willem Buiter (London School of Economics and Chief Economist CitiGroup) explores the 'Numéraire' a.k.a. the 'currency-unit' or 'means-of-payment' function of money, according to the theory of the functions of money. Buiter first concludes that:

  "The role of money as the numéraire (currency unit or unit of account) is one of the least researched and least well understood topics in (monetary) economics and therefore remains an orphan. The determination of the numéraire and its significance is a much-neglected issue in monetary economics."

  Buiter explorations lead him to bank accounts with an negative interest rate.

  Comment:

  In modern monetary economics Buiter was the first to research the 'numéraire' (a.k.a. the 'currency-unit' or 'means-of-payment' functions of money). Buiter popped a very interesting question: ***Is Numérairology the future of monetary economics?*** After having read the September 2011 publication ***"With a complementary currency Greece can devalue - and remain in the Euro Area"***, by 'Schuster & Kennedy', in September 2011 also Buiter came up with a concept of a 'parallel currency-unit' for Greece and other weaker Euro countries to tackle the Euro Crisis. Unfortunately Buiter works out this concept different from André ten Dam (in his ECU-ERM), and therefore Buiter also comes to different conclusions (see at the item **'Scientific publications about other relevant proposals'** on this website).

- Borensztein, Eduardo & José De Gregorio (1999), ***"Devaluation and inflation after currency crises"***, CiteSeerX, the College of Information Sciences and Technology, The Pennsylvania State University (USA)
  http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.202.925

  Introduction:

  In this paper Dr. Eduardo Borensztein (Researcher International Monetary Fund – IMF) and Prof. José De Greogorio (University of Chile, former minister of Chile and former Governor of the Central Bank of Chile) research the effect of large monetary devaluations on inflation. They analyze a sample of 41 episodes of currency crisis. The data show that about 30% of the devaluation is offset by higher inflation after three months, and the offset climbs to about 60% after two years, with a significant real depreciation present for longer periods. The main determinants of the extent of inflationary pass-through of the devaluations and inflation are the position of output relative to trend, the extent of initial overvaluation, and mainly the initial rate of inflation. The results explain well the evolution of inflation after currency crisis, except for the EMS crisis of 1992 that has a very low pass-through. They also analyze the inflationary impact of devaluations in the Asian crisis.

  "….The most challenging question when exiting an exchange rate peg is whether the devaluation will be an effective means of changing relative prices (the real exchange rate) in the economy. ….In particular, in the aftermath of most currency crises there is the concern that the inflationary impact of the large devaluation may greatly complicate the management of the crisis. ….Large and sudden devaluations usually occur when an exchange rate peg is abandoned, often in the context of strong market pressure or a balance of payments crisis. While in these situations there are always clear signs of overvaluation of the domestic currency…If the devaluation achieves a durable real exchange rate adjustment, the current account will show a substantial improvement, confidence may be regained, and the crisis may be shorter. …..The speed with which domestic prices rise after a sudden devaluation (and the degree to which they do) thus becomes the critical factor. Restoring equilibrium to relative prices while maintaining a broadly appropriate monetary policy stance should not result in generalized inflationary pressures….Summarizing, our main findings are the following: The strongest and most robust results are obtained at the six month and one year horizons; The pass-through from devaluation to inflation after a currency crisis is not 1:1 even after two years. This implies that currency crises, in general, produce a long lasting change in the real exchange rate. The level of inflation after devaluation depends crucially on the initial level of inflation. Economies that start with an overvaluation or output below trend tend to have lower pass-through. ………….We have examined the response of inflation after currency crisis. As evidenced in this paper there is no a full pass-through from devaluation to inflation and about 30% passes in the first three months to reach 55% after two years. This implies that changes in the real exchange rate are long lasting. …..Regarding the determinants inflation after the crisis, beyond the size of the devaluation, we find that the initial level of inflation is key in predicting future performance. ….An overvaluation tends to reduce the inflationary impact of the devaluation, as expected because a larger real exchange rate adjustment is required. After the EMS crisis (1992), inflation did not rise at all after the substantial devaluations……The inflationary effects of a devaluation generally depend on the policy responses after the crisis……"

- Feldstein, Martin (11-1997), ***"EMU and International Conflict"***, NBER Working Paper Vol. 76 No. 6 (USA)
  http://www.nber.org/feldstein/fa1197.html

  Introduction:

  In 1997 prof. Martin Feldstein (Harvard University, president emeritus of the NBER, chairman Council of Economic Advisers under President Reagan and member of President Obama's Economic Recovery Advisory Board) wrote:

  "….For many Europeans, reaching back to Jean Monnet and his contemporaries immediately after World War II, a political union of European nations is conceived of as a way of reducing the risk of another intra-European war among the individual nation-states. But the attempt to manage a monetary union and the subsequent development of a political union are more likely to have the opposite effect. Instead of increasing intra-European harmony and global peace, the shift to EMU and the political integration that would follow it would be more likely to lead to increased conflicts within Europe and between Europe and the United States. What are the reasons for such conflicts? In the beginning there would be important disagreements among the EMU member countries about the goals and methods of monetary policy. These would be exacerbated whenever the business cycle raised unemployment in a particular country or group of countries. These economic disagreements could contribute to a more general distrust among the European nations. As the political union developed, new conflicts would reflect incompatible expectations about the sharing of power and substantive disagreements over domestic and international policies. Since not all European nations would be part of the monetary and political

union, there would be conflicts between the members and non-members within Europe, including the states of Eastern Europe and the former Soviet Union. Conflicts would also develop between the European political union and non-European nations, including the United States, over issues of foreign policy and international trade. While disagreements among the European countries might weaken any European consensus on foreign affairs, the dominant countries of the EU would be able to determine the foreign and military policies for the European community as a whole. A political union of the scale and affluence of Europe and the ability to project military power would be a formidable force in global politics. Although 50 years of European peace since the end of World War II may augur well for the future, it must be remembered that there were also more than 50 years of peace between the Congress of Vienna and the Franco-Prussian War. Moreover, contrary to the hopes and assumptions of Monnet and other advocates of European integration, the devastating American Civil War shows that a formal political union is no guarantee against an intra-European war. Although it is impossible to know for certain whether these conflicts would lead to war, it is too real a possibility to ignore in weighing the potential effects of EMU and the European political integration that would follow…..
……The shift to a single currency would mean that the fall in demand in a country could not be offset, as it could be with an individual national currency, by an automatic decline in the exchange value of the currency (making its exports more competitive) and a decline in its interest rates (increasing domestic interest-sensitive spending by households and businesses) or by using its own monetary policy to shift interest rates and exchange rates. The ECB would have to make monetary policy with a view to the conditions in all of Europe, not just a particular country or region. The result would be a conflict between the country with rising unemployment and the rest of the EU…….Since national monetary and fiscal policies would be precluded, the most likely outcome of the shift to a single monetary policy would be the growth of substantial transfers from the EU to countries that experience cyclical increases in unemployment. Financing those transfers would require a significant increase in tax revenues collected by the EU…."

See also: Feldstein, Martin (1-2012), ***'The Failure of the Euro – The Little Currency That Couldn't'***, Foreign Affairs (USA)
http://www.foreignaffairs.com/articles/136752/martin-feldstein/the-failure-of-the-euro
and:
Video-interview (23-5-2012), ***'The Future of the Euro With Martin Feldstein'***, Foreign Affairs (USA)
http://www.foreignaffairs.com/discussions/audio-video/foreign-affairs-focus-the-future-of-the-euro-with-martin-feldste

- Vaubel, Roland (1978), ***"Strategies for Currency Unification: The Economics of Currency Competition and the Case for a European Parallel Currency"***, Siebeck (Mohr), Tübingen (Germany)

- Mundell, Robert (10-12-1969), ***"A Pan for a European Currency"***, Discussion Paper for the Conference on Future of the International Monetary System New York (USA)
http://robertmundell.net/2012/11/robert-mundells-plan-for-a-european-currency-1969/

Introduction:

In this 1969 discussion paper Prof. Robert Mundell (Columbia University in New York and Nobel laureate) explains why a European currency is so important in the global monetary and political world. Because of the views of Mundell first written down in this discussion paper Mundell is called ***'The Godfather of the Euro'***. Different than in his famous 1961 paper ***'A theory of Optimum Currency Areas'*** (see underneath) in this discussion paper Mundell focuses on the need for a European currency for monetary and global political reasons). Please note that the economical and political world of 1969 was quite different than nowadays.

Comment:

The need for a European currency is nowadays for global political and especially European political reasons even more important than in 1969.

- Mundell, Robert (1961), ***"A theory of Optimum Currency Areas"***, American Economic Review 51 P. 657-665 (USA)
http://www.policonomics.com/wp-content/uploads/A-Theory-of-Optimum-Currency-Areas.pdf

Introduction:

Prof. Robert Mundell (Columbia University in New York and Nobel Laureate) is the author of numerous works and articles on economic theory of international economics, he prepared one of the first plans for a common currency in Europe and is known as the father of the theory of optimum currency areas. He formulated what became a standard international macroeconomics model, was a pioneer of the theory of the monetary and fiscal policy mix, the theory of inflation and interest, the monetary approach to the balance of payments, and the co-founder of supply-side economics. He has also written extensively on the history of the international monetary system and played a significant role in the founding of the euro. In 1999, he received the Nobel Memorial Prize in Economic Sciences.