

economy macro policies, globalization, and poverty and income redistribution in democratic societies. It demonstrates that globalization is not an inexorable process, but a consequence of policy choices that can be reversed. The current policy decisions by Hugo Chavez in Venezuela may be perfect examples of this! Whether the process of globalization continues or whether it is reversed may depend on governments' success in redistributing income and providing protection against the risk inherent in specialized production for global markets.

K. SUREKHA RAO

Indiana University Northwest

Prospects for Monetary Unions after the Euro. PAUL DE GRAUWE AND JACQUES MELITZ (Editors). Cambridge, MA: The MIT Press, 2005. Pp. ix, 358. \$45.00.

Despite much skepticism among economists, the European Union (EU) created the European Monetary Union (EMU) with a single currency, euro, on January 1, 1999. Greece joined the monetary union in January 2001. Euro banknotes and coins entered circulation on January 1, 2002. Thus, the eurozone was created. After this book was published, Slovenia joined the eurozone in 2007 (Origins of the Euro, 2007). Thus, as of June 2007, 13 member countries of 27 EU member countries are in the eurozone. Euro is now the only official currency in these 13 economies, and the European Central Bank (ECB) conducts their monetary policies.

This conference book contains 12 chapters written by 20 renowned economists. Throughout the book, authors discuss major economic issues in relation with the EMU. In the first chapter, De Grauwe and Melitz briefly describe the book by introducing topics of each chapter. Discussions in the next 11 chapters primarily emphasize the effects of monetary union on the inflation rate, labor market, structural changes, trades among member countries, economic growth, and risk sharing among members.

From Chapter 2 to Chapter 6, the authors discuss various impacts of enlargement of the eurozone into Central European countries. In "The Eastward Enlargement of the European Monetary Union",

Michele Ca'Zorzi and Roberto A. De Santis develop a framework that refers to the standard time inconsistency literature; they analyze how the enlargement of the eurozone into the Central Europe would affect the whole eurozone. The authors find that new member countries may experience a high rate of inflation because of structural reasons, but in general, the cost of enlargement of the monetary union for each member depends on the slopes of the Phillips curves of all members, the size of its economy, and the variance of country specific supply and real exchange rate shocks.

In “Structural Reforms and the Enlargement of Monetary Union”, Carsten Hefeker stresses the importance of structural similarities among member countries of the monetary union as the Maastricht Treaty has its criteria for entry. Next, the author uses a two country model to derive the influence of an extension of the monetary union on structural reform efforts in member countries. The author argues, “One can expect more structural reforms to be undertaken in the older member states.”

In “The Endogeneity of the Optimum Currency Area (OCA) Criteria and Intra-industry Trade: Implications for EMU Enlargement”, Jarko Fidrmuc tests the empirical validity of the endogeneity hypothesis of OCA criteria introduced originally by Jeffrey A. Frankel and Andrew K. Rose (1997). The author’s test confirms the OCA hypothesis with respect to only intra-industry trade.

In “Exchange Rate Volatility and the Decline of Employment Growth in the CEE (Central and Eastern European) Economies”, Ansgar Belke and Ralph Setzer provide empirical evidence that exchange rate volatility in Central and Eastern European economies lowers growth of employment in these countries. This result suggests that exchange rate fluctuation creates a tangible cost to these economies and removing the exchange rate risk by joining the eurozone will benefit them.

In Chapter 6, Ronald MacDonald and Cezary Wojcik provide substantial information about the transition process of the Central European countries into the eurozone. The authors examine the effects of higher productivity in the Central European countries on the level of prices; they expect the inflationary Balassa-Samuelson effect in the region.

In Chapter 7, “The EMU Effect on the Trade: What’s In It for the UK?”, Alejandro Micco, Guillermo Ordóñez, and Ernesto Stein, show

that the currency union has a positive effect on trade. Common membership in EMU increases bilateral trade by about 13% with the developed country sample, and by 5% with the extended sample; the United Kingdom, not in the EMU yet, would increase its trade with every member in the eurozone if it would join the monetary union.

In Chapter 8, "Output Smoothing in EMU and OECD: Can We Forgo the Government Contribution? A Risk Sharing Approach", Carlos Marinheiro discusses the risk sharing mechanism in the eurozone and compares it with the United States. He analyzes the patterns of output smoothing for the eurozone and OECD (Organization for Economic Co-operation and Development) economies using a panel data regression. This empirical study shows that the EMU has a weaker risk sharing mechanism through government budgets and capital markets than the United States.

The next three chapters contain discussions on potential monetary union in other regions of the world. In Chapter 9, "On the Implications of a Unilateral Currency Union for Macroeconomic Volatility", Roberto Duncan uses Peruvian data to simulate a dynamic stochastic general equilibrium model to analyze a potential unilateral currency union, dollarization, in emerging economies. The study shows, "A full dollarization scheme generates higher real volatility in macroeconomic variables, especially, on investment and output in contrast to a partially dollarized economy with flexible exchange regime (page 255)." The statement implies a full dollarization would not benefit a small open economy. In Chapter 10, "Regional Currencies Versus Dollarization: Options for Asia and the Americas", Felipe Larrain and Jose Tavares conduct an empirical examination of dollarization as an alternative to regional, collective form of monetary union. They use the real exchange rate volatility, bilateral asymmetry of output shocks, and bilateral intensity of trade to measure extent of economic integration. A high level of economic integrity within East Asia suggests it would benefit more from a regional monetary union, whereas South and Central America would both benefit more from dollarization than a regional monetary union because these areas are more integrated with the United States. In Chapter 11, "An Output Perspective on a Northeast Asia Currency Union", Yin-Weng Cheung and Jude Yuen find a relatively high degree of correlation between output behaviors and a common business cycle in these three countries: South Korea, Japan, and China. Although this satisfies the economic preconditions

for a successful monetary union, political differences among these three countries make it difficult to imagine an economic integration.

In the final chapter, "National Currency: When Do Monetary Unions Fall Apart?", Volker Nitsch analyzes previous monetary unions. He uses large panel data to find that political breakups and large inflation differences were the major reasons of monetary union dissolution of the period from 1948 to 1997.

A group of authors in the book attempted to answer primary macroeconomic questions regarding the monetary union in Europe (EMU). In addition, other authors analyzed possibilities and benefits of potential monetary unions in other regions in the future. This book gives numerous excellent insights in the field. However, readers will notice that because much more remains unknown, many other researchers will be attracted to study these issues.

HAYOUNG GIM

Wayland Baptist University

References

Frankel, Jeffrey A. and Rose, Andrew K. "Is EMU more justifiable ex post than ex ante?" *European Economic Review*, 1997, 41, pp. 753-760.

The euro: Our currency. "Origins of the Euro."
http://ec.europa.eu/economy_finance/euro/origins/origins_main_en.htm, 2007

Structural Unemployment in Western Europe: Reasons and Remedies. MARTIN WERDING (editor). Cambridge, MA: The MIT Press, 2006. Pp. ix, 350. \$45.00.

The book is a collection of papers that originated from a conference in Munich in December 2002. Two introductory chapters summarizing the labor markets in Europe are followed by ten chapters relating to individual countries, written by researchers in those countries. The idea is to provide a diversity of experiences and public policies in dealing with problems of structural unemployment. This approach works because, despite how we tend to treat the subject in introductory economics courses, there is no monolithic European labor market with relatively high and persistent unemployment rates. There is enough