

Contents

<i>List of figures</i>	page xi
<i>List of tables</i>	xiv
<i>Preface</i>	xix
<i>List of conference participants</i>	xx
1 Introduction	1
<i>George Alogoskoufis, Lucas Papademos, and Richard Portes</i>	
1 The nature of external constraints	1
2 External constraints in theory and practice	3
3 Country studies	6
2 Global financial integration and current account imbalances	10
<i>Michael Artis and Tamim Bayoumi</i>	
1 Introduction	10
2 Definitions	10
3 Analysis of the balance of payments	11
4 Saving–investment correlations	20
5 Consumption paths and financial integration	25
6 Conclusions	27
Appendix: Policy reaction functions	28
Discussion	38
<i>Charles Wyplosz</i>	
3 The solvency constraint and fiscal policy in an open economy	41
<i>David Currie and Paul Levine</i>	
1 Introduction	41
2 The public sector and national budget constraints	42
3 The model	45

viii	Contents	
	4 National solvency without stabilization policy	48
	5 Fiscal policy with reputation	51
	6 Fiscal policy without reputation	58
	7 Conclusions	63
	Appendix: Linearization and calibration	65
	Discussion	68
	<i>Lucas Papademos</i>	
4	Relaxing the external constraint: Europe in the 1930s	75
	<i>Barry Eichengreen</i>	
	1 Introduction	75
	2 Why was devaluation a necessary precondition for recovery?	77
	3 The response to devaluation	86
	4 Implications for the performance of financial and commodity markets	96
	5 Conclusions	110
	Appendix 4A: Devaluing countries, by year of devaluation, and members of the control group	111
	Appendix 4B: Construction of effective exchange rates	111
	Appendix 4C: Macroeconomic data for Tables 4.4–4.11	112
	Discussion	117
	<i>Louka T. Katseli</i>	
5	External constraints on European unemployment	120
	<i>George Alogoskoufis and Christopher Martin</i>	
	1 Stylized facts about European unemployment	124
	2 Equilibrium unemployment in open economies	126
	3 An equilibrium model with commodity prices	133
	4 A model with sluggish price adjustment	138
	5 European unemployment and the external constraint	144
	6 Conclusions	158
	Appendix: Listing of the model for the Group of Five	158
	Discussion	163
	<i>Charles R. Bean</i>	
6	France and Germany in the EMS: the exchange rate constraint	167
	<i>Daniel Cohen and Charles Wyplosz</i>	
	1 Introduction	167
	2 Stylized facts	169

	Contents	ix
3 A theoretical interpretation of policy choices	173	
4 An empirical interpretation	178	
5 Policy interpretation	184	
Appendix A: Cointegrating equations	186	
Discussion	190	
<i>David Currie</i>		
 7 The external constraint in the UK	 193	
<i>Charles R. Bean</i>		
1 Introduction: some economic history	193	
2 The external constraint: is it just a solvency requirement?	201	
3 Prospects for the future	210	
Discussion	216	
<i>Michael Artis</i>		
 8 Savings, investment, government finance, and the current account: the Dutch experience	 219	
<i>Hugo A. Keuzenkamp and Frederick van der Ploeg</i>		
1 Introduction	219	
2 The Dutch economy in the 1980s	221	
3 Short-sightedness in the budgetary policies of Dutch governments	227	
4 Monetary discipline and the advantages of a firm EMS anchor	238	
5 Investment, government deficits, and the current account	244	
6 Capital mobility and the external constraint	248	
7 Concluding remarks	257	
Discussion	260	
<i>Christopher Martin</i>		
 9 Fiscal deficits, seigniorage, and external debt: the case of Greece	 264	
<i>George Alogoskoufis and Nicos Christodoulakis</i>		
1 Macroeconomic developments in Greece in the 1980s	267	
2 A model of optimal savings, deficits, and debts	271	
3 Stabilizing a rising public debt–GDP ratio	279	
4 Seigniorage, public debt, and external debt	282	
5 Public and external debt stabilization in Greece	287	
6 Conclusions	292	
Appendix 9A: Stability analysis of the model	293	

