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BOOK REVIEWS

Frankel, J. A. – Pissarides, Ch. A. (eds)
NBER International Seminar on Macroeconomics, 2005
London – Cambridge, MA: The MIT Press, 2007, 402 pp.

Perhaps one of the most prestigious publications in international macroeconomics has been the conference volumes of the National Bureau of Economic Research. The NBER has long established itself as a forum of high quality that show the way ahead in terms of economic theory and research. As such, especially knowing the wide availability of its various publications on the web, it might be superfluous to offer a review in the conventional sense. All the more so, as already noted in the preface (p. VII) the analyses are, on purpose, void of any policy recommendations. However, the issues discussed in this volume are a far cry from the sterile and often self referential pieces of several mainstream journals, as the chapters address such obviously relevant issues as macroeconomic derivatives, continuously low European employment, the border between formal and informal employment, inflation-output tradeoffs, optimal taxation, fiscal divergence and business cycle, real exchange rates in open economies and euro-suitability of new EU member states. All these might sound as a relief for those whose departments or research centres are right about to be dissolved on grounds of not being sufficiently academic in terms of their orientation to practical matters (a serious issue in a variety of countries from Germany to Japan).

The macroeconomics seminar series started in 1978 and one of its major aims and accomplishments has been to create a multi-layer convergence among European and American approaches to economics. The contributors, coming from a wide range of nations, do speak the same language in terms of analysis and approaches. While Part One of the book is devoted to issues of macroeconomic policy and labour markets, Part Two is devoted to European Monetary Union and its potential eastward expansion. It is particularly stimulating for us to see the strong presence of Hungarian researchers among the contributors, either as paper givers or as discussants, such as Ádám Szeidl of Berkeley, Zsolt Darvas of the Corvinus University of Budapest, György Szapáry, then Vice Governor of the National Bank of Hungary (NBH) and Balázs Világi of the research department of the NBH. This impressive list alone testifies that the trend of joining globalization in economic research, already discussed and analysed in major retrospectives (Wagener 1998; Kaase et al. 2002; Bourgignon et al. 2007) has been accomplished – and successfully so – by the economics profession of the region. Knowing the loud doubts about the feasibility of the project, especially if that is also to retain a degree of couleur locale, the outcome is all the more impressive and commendable to a broad professional readership and policy makers alike. True, most of the contributors are integral parts of one or another major network, such as NBER or CEPR in London.

In Part One on macroeconomic policy and the labour markets Refet Gürkaynak of Bilkent University, Ankara/Turkey and Justin Wolfers of the University of Pennsylvania analyse the role of macroeconomic derivates, as these provide market-based probabilities of specific outcomes, which is seen as a major advantage over the previously used survey data. They also allow for a measure of uncertainty in investors' forecasts as different from dispersion of views among market participants. The authors find no evidence of a risk premium, which they interpret that derivative prices can indeed be used as a good measure of market expectations. Announcements of payroll employment numbers have the strongest impact on both the stock and bond markets.

Addressing the issue of low European employment, Yann Algan of the Marne-la Vallée University/Paris and Pierre Cahuc of Sorbonne take a fresh look at the employment differences across OECD nations. The biggest single explanatory variable is known to be differences in female employment rates. They find – in line with other analysts (Sapir 2006) – that the different value attached to the traditional family and related social obligations may be an important factor accounting for those marked differences. Continuing the issue of labour markets, Tito Boeri of Università Bocconi/Milan and Pietro Garibaldi of the University of Turin take a close look at unreported activities on labour markets and their interrelationships to taxes and other regulations. Drawing on the experience of Brazil and Italy they find strong substitution effects between informal unregulated flexible ones. Sorting takes place both on the employer and employee sides, with the less skilled more skewed towards informal employment. Therefore, governments avoid brutal clampdowns on illegal employment, even in trivial cases, as these would enhance reported unemployment, which is a task for the government to tackle.

In the next chapter Assaf Razin of Tel Aviv University/Israel and Prakash Loungani of the IMF/Washington, D.C. address the issue of how financial and trade globalisation influences the ways monetary policies may be conducted. In an open economy, the preference to price stability increases, pushing the central bankers towards a more conservative stance than in the 70s and 80s, and discounting the earlier predominant neo-Keynesian preoccupation with the output gap.

Part Two of the volume analyses EMU related issues. Marianne Baxter and Robert King, both of Boston University/USA analyse the interrelationship of optimal taxation and fiscal policy externalities. Due to the latter, under conditions of a monetary union, fiscal policy is no longer a purely domestic affair. Thus a degree of synchronisation is a precondition for regional level price stability to sustain. The authors of this chapter, however, take a different look, and claim that trade imbalances rather than fiscal deficits are the proper indicator for the spillover effects of one country policy over the other. The issue of fiscal divergence and business cycle harmonisation is taken up in the article by Darvas, Szapáry and Rose (the third author is of Berkeley, USA). This piece takes issue with the traditional view seeing fiscal planners as benevolent servants of the public, who are fixed at smoothing the business cycle. Instead they model them, as in reality, vote maximisers, willing to conduct procyclical policies. Their finding is that preventing countries from following idiosyncratic policies and thus enhancing fiscal synchronisation is favourable for joint monetary policy aiming at price stability. Thus – by implication, though not formulated by the authors – the fiscal "straightjacket" of the Stability and Growth Pact is a useful tool rather than an unnecessary burden, as described by a good part of the literature.

The issue of how real exchange rates behave in the run-up to EMU has been a controversial one in both theory and policy oriented literature. Balázs Világi of the National Bank of Hungary analyses how spontaneous appreciation, also called Balassa-Samuelson effect, may influence the real exchange rate of new members. If there is a different price adjustment dynamics in the traded and non-traded sectors this difference may depend on both market structure and market frictions, including nominal rigidities. Adjustment in the non-traded sectors may be incomplete and slow due to the existence of those rigidities, he warns. One may ask, however, if the latter could and should be remedied by straightforward regulatory action. The longer the adjustment period takes, say 5-10 years after EU accession, the more straightforward this question and the need for action becomes. If the latter is indeed forthcoming, the problem of rigidities is as easy to overcome as it has been in labour and product markets.

In the concluding chapter Linda Goldberg of the Federal Reserve Bank of New York studies the invoicing practices of new member states in their period of preparing for the euro area membership. She is critical of the new countries for their not optimizing the use of currencies, i.e. de facto neglecting the dollar and too quickly relying on the single currency only. This may hold in the short run, but the example of Slovenia and several other countries earmarked for the 2009 adoption of the euro indicates that strategic considerations and the wish to forestall any reassessment of fix assets due to unexpected exchange rate developments may render this option a sound and forward looking one.

It is a welcome innovation that the outcomes of this important seminar are being published in a book format by a leading academic press. It is also extremely reassuring to see the fruitful cooperation among authors residing in remote places of the globe, thousands of kilometres away, still thinking in the same analytical frame. It is also good to see the return of relevant issues to abstract macroeconomic analyses. However, the volume could also have benefited from a concluding chapter and the usual name and subject indices, marking academic publications.

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