MONEY AND NATIONAL SOVEREIGNTY IN THE GLOBAL ECONOMY

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... above all let finance be primarily national... [Keynes, (1933) 1982, 236]

INTRODUCTION

The purpose of this paper is to set out a simple analytical framework for assessing the nature of the constraints that ongoing economic and financial integration in the global economy is placing on the independent conduct of nationally-based public policy. It is a frequently heard argument in contemporary international political economy that these constraints are becoming increasing severe, both as a result of the growth of the major trading blocs such as the North American Free Trade Agreement (NAFTA) and the European Union (EU), and simply the overall pace of globalization. At one extreme, it is suggested that the constraints are so binding that, in effect, the concept of economic policy making in the traditional nation-state is becoming obsolete.

Such issues are clearly of major concern, in particular to the small or medium-sized open economies, such as Canada. In these jurisdictions fears are often expressed in the domestic political arena that continuing economic integration implies a cumulative loss of control in such areas as monetary policy, fiscal policy, environmental standards, labor legislation and social protection.

In this paper it will be argued that in assessing this debate it is essential to distinguish between the different elements of the integration process, such as trade liberalization, technology transfer, and financial integration. It is suggested that the relatively greater threat to national sovereignty in economic policy making arises from financial integration, broadly defined, rather than the other categories.

But furthermore, the concept of financial integration is itself somewhat ambiguous. Should this be taken to mean simply the liberalization of capital flows, or something more far-reaching, such as the current initiative for monetary union, the “single currency”, in the EU? The latter type of arrangement would have the most far-reaching implications for national sovereignty in public policy making, not only (as is obvious) with respect to monetary policy, but in other important areas also. Conversely, it can also be shown that an integration process which stops short of monetary union would continue to allow the exercise of some degree of sovereignty, even in a global economy which was highly integrated in most other respects. To put the point the other way round, it can be shown that an independent monetary policy is, in fact, a
pre-condition for an independent policy to be pursued in many other fields also, such as fiscal policy, labor-market regulations, and social protection.

At one level, these results simply confirm for the international arena the fundamental importance of alternative monetary arrangements in capitalist monetary production economies. As Wray has recently pointed out in a slightly different context:

"... If a government can create at will the money that the public willing offers goods and services... to obtain, then... spending is never constrained by narrow "financing" decisions... [1997, 28]."

Hence, in these circumstances, a wide variety of public policy objectives can be pursued. However, this basic point has not often been stressed in recent discussions of global trends and world and regional economic governance.

The next two sections delimit various distinctions between the different elements of the integration process, and discuss some of the key issues in the political economy of economic governance in the international sphere. This is followed by a discussion of the specific examples of taxation to finance differing relative levels of social protection, and the development of a simple analytical model. The final section contains concluding remarks.

**ECONOMIC AND FINANCIAL INTEGRATION**

Prior to recent discussions of Economic and Monetary Union (EMU) in Europe, stemming from the Delors Report of 1989 and the Maastricht Treaty of 1991, it was commonplace to classify the different potential stages of economic integration within a three-fold schema. The least integrated system would be a Free Trade Area which would eliminate tariffs between integrating partners, but not impose a common external tariff, nor provide for the free movement of factors (and hence de lege to facilitate technology transfer) within the area. The next level would be a Customs Union, which would additionally impose a common external tariff, but still not allow for free factor movements. Finally, a Common Market would eliminate internal tariffs, establish a common external tariff, and also allow for the free movement of both labor and capital.

The new element added by Delors and Maastricht was, of course, the further concept of a Monetary Union (for the EU) involving a single currency managed by a union-wide central bank. In fact, it is perhaps something of an exaggeration to describe the concept of a currency union as an innovation. The same term could also reasonably be applied to the situation in existing federal systems such as the USA and Canada. However, the recent European debate has certainly served to highlight the significant increase in the degree of integration represented by the case of a monetary union rather than that of a single market or a common market.

Another form of financial integration which has received much comment, and which from the perspective taken here should be sharply distinguished from examples of conscious institutional innovation such as EMU, is the overall dramatic increase in capital mobility which has occurred in recent years. There has been an apparent

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movement in the real world, and on a global scale, towards what was formerly simply the textbook case of perfect capital mobility. The so-called globalization of capital markets,意味着 a combination of technical change and deregulation, has greatly increased both the volume and velocity of capital transfers around the world, and has made the textbook assumption a much closer approximation to reality. At some level it is irrelevant whether or not these capital transfers are pejoratively described as speculative, or are regarded more benignly, as simply the appropriate response to changing financial incentives. In either case the impact is the same; the capital account drives the current account, and the concern is that the real economy of exports and imports must adjust to the financial imperatives rather than vice versa.

It is important to note, however, that the definition of perfect capital mobility applies equally to the case where different currencies continue to exist, as to that of a currency union. It also applies indifferently to regimes of fixed and floating exchange rates in the multi-currency case. This turns out to be crucial in evaluating the potential for the continued existence of independent fiscal policies, and other differences in public policy, in a world in which there is otherwise a very high degree of economic integration.

**IS AN "INDEPENDENT" POLICY IN A SINGLE JURISDICTION DESIRABLE AND/OR FEASIBLE?**

From a utilitarian perspective, of course, concepts such as sovereignty and independence, as applied to public policy, should have no real status as such. They would only be useful or necessary if they contributed to achieving some generally desired result defined in other terms. What constitutes a desirable end differs also, according to the political, ideological, social, or theoretical perspectives of those making the judgments. For example, from a broadly "Keynesian" point of view, desirable economic outcomes might consist of full employment, sustainable growth, a more equitable income distribution, and so forth, whereas a neo-conservative might regard price stability or balanced budgets as more or less desirable ends in themselves.

These considerations do perhaps explain why the enthusiastic advocacy of alternative international financial arrangements and/or exchange rate regimes often seems to cut across "party lines". For example, advocacy of irrevocably fixed exchange rates in the ERM (exchange rate mechanism) of the EMS (European Monetary System) in the late 1980s and early 1990s was very closely associated with a neo-conservative policy agenda. Similar remarks apply also to the contemporary project of the single currency in the EU. On the other hand, many Keynesian or Post-Keynesian economists also favor fixed exchange rate regimes or the detailed international regulation of financial markets by powerful international financial institutions, albeit with very different ultimate objectives in mind (Davidson, 1991, 1994). At one level, then, the point at issue is not so much the desirability of particular exchange rate regimes, or particular institutional arrangements, per se, but the actual package of policy measures that would be likely to be put in place by those responsible for making the decisions.
There are therefore two general arguments in favor of retaining as much scope as possible for independent national economic policy making in the current global economic environment and contemporary political circumstances. The first is the issue of democratic accountability. From this point of view there is clearly a case for aligning the responsibility for economic decision making as closely as possible with existing political arrangements. The deficiencies of the proposed European EMU on this score have been so frequently discussed as to require little further comment. But international institutions generally have a tendency to be lacking in this respect, as illustrated very recently by several commentaries on the role of the IMF (International Monetary Fund) in the response to the currency crises in Asia in 1997/98.1

The second argument is the likely deflationary bias of international bureaucracies in the contemporary social, economic and political climate. Contemporary economic and political orthodoxy is such that the international bureaucrats who would be appointed to administer any new global economic and financial institutions would almost certainly do so in a manner informed by neo-conservative theory and ideology. From an alternative, broadly Keynesian, point of view this would be unlikely to produce desirable economic outcomes.

It cannot, of course, be claimed that independent national policy making would necessarily be an improvement over the internationalist solution in this respect. This will depend on the biases and interests of the national policy-makers themselves. Nonetheless, historical and contemporary precedents do suggest that it is almost always in the national interest to possess a potential escape route from the straightjacket that deflationary pressures applied at the national or regional level could become.

Interestingly enough, the original biographer of Keynes, Harrod [1951], made a very similar type of argument to the above in explaining Keynes’s own changes in outlook on questions of international financial policy over the course of his lifetime. On the one hand, in his contributions of the 1920s Keynes certainly appeared to be an advocate of monetary sovereignty (Smithin and Wolf, 1993). Similarly, when Britain was forced to leave the reformed gold standard and float the pound in 1931, he was “exuberant” (Molnar, 1988, 229). However, by the 1940s Keynes seemed to have moved toward a much more internationalist orientation. He was the principal author of the official British proposal for a Clearing Union in 1943, and was one of the main British negotiators in the discussions leading up to the Bretton Woods agreement of 1944. Harrod explains the change of heart as follows:

...this instinct was for international co-operation. If these instincts had been dormant in the years before the war, that was because such co-operation seemed impracticable; the internationalists tended to be those who had accepted Keynesian economics, and to hand international arrangements over to them would, in his judgment, be fatal...... [but] was the world changing now?...... [1951, 525]

As explained by Smithin and Wolf [1993], one problem with the internationalist solution today would be that the conventional wisdom once again tends to reflect similar attitudes to those prevailing in the 1920s and 1930s. From this point of view the world has changed back again.

Whether or not an independent policy is desirable, it may well also be questioned in the contemporary environment whether or not such a stance is even feasible. If not, then the preceding discussion would evidently be met. In fact, it has become something of a staple of both the popular and financial press to argue that it is now almost completely anachronistic for the domestic monetary authorities to attempt to influence economic events in their own jurisdictions. In the modern world, it is said, they are more or less at the mercy of capricious world-wide economic trends, leaving them with no choice but to conform to whatever international market forces dictate, however unpleasant they may be of the actions they are forced to take. This is rather vaguely supported by the sense that structural change in the world economy at the end of the twentieth century, so-called globalisation, makes the very idea of separate national currencies and independent monetary policies obsolete and unviable. In this type of argument, particular stress is laid on contemporary technological and regulatory changes in financial markets, which have vastly increased and facilitated international capital movements. According to some proponents, these trends have effectively established a global capital market which supposedly undermines any attempt by individual jurisdictions at an independent policy. It is not usually made clear just how monetary policy and interest rates actually are determined in this environment, other than by rather mysterious global market forces.

This paper suggests, however, that this kind of argument is essentially spurious. What the globalisation of financial markets actually does is to move the world closer and closer to a situation of technically perfect capital mobility. However, as long as there are separate currencies and exchange rates are free to move, the technical changes per se are unlikely to induce players in financial markets, whether speculators or others, to treat differently denominated financial assets as perfect substitutes. But, it is the latter which would be required for the domestic authorities to legitimately claim that they have “no choice” whenever interest rates are raised. Much more frequently such episodes are literally a matter of choice, the alternative being simply to let the exchange rate depreciate.

The real result of the increased capital mobility in recent years is simply to make dramatically clear that capital account developments dominate the current account, and that the trade performance of a nation emerges as little more that a side effect of what is happening in capital markets. This may be an undesirable and unfortunat development for all sorts of reasons, but is it does not follow that this automatically points to the conclusion that national policy-makers possess no leverage over domestic interest rates, or that they should give up whatever leverage they still do possess. Indeed, as will be shown below, the scenario outlined seems to be rather an argument for giving much more careful thought than hitherto about what a sensible monetary policy might be in the new environment. This is quite different from abandoning control of the remaining monetary levers either to the central bank or some other nation or to an international bureaucracy.
THE EXAMPLE OF SOCIAL PROTECTION

One of the most controversial issues in contemporary discussions of economic and financial integration is the viability of maintaining existing levels of social protection in individual jurisdictions in the new environment. For example, this was certainly a major issue in the domestic political debate in Canada in the context of both the Canada-US Free Trade Agreement (CUTPA) of 1988 and the North American Free Trade Agreement (NAFTA) of 1994.

The argument has frequently been that high levels of social protection add to costs and hence become increasingly unsustainable in an environment in which the maintenance of international competitiveness is of primary importance. Implicitly, the traditional welfare state is no longer affordable. In addition, and more controversially, social protection affects incentives—high levels of social protection and social security diminish the spur to work effort and innovation.

While it must presumably be common ground that the ultimate determinants of the absolute level of social protection are the level of productivity and stage of development of the economy concerned, in the contemporary debate even relative levels of social protection are at issue. For example, Sachs [1996] has compared systems of social protection in the so-called transitional economies, which, in the early 1990s, were moving away from their formerly socialist/communist modes of production to more market-oriented systems. A sharp distinction is made between the economies in this category in Eastern Europe and the former Soviet Union (ESSU), and those in East Asia (e.g., China and Vietnam). The former supposedly had extensive systems of social protection (welfare states) inherited from the socialist period, while the latter had virtually none. The specific complaint [Sachs, 1996] was that in the late 1980s and early 1990s the EESSU countries had similar levels of social spending and pension benefits as a percentage of GDP to the OECD countries, and that this was to their disadvantage in the transition process as compared to the East Asian economies.

In the light of this type of argument it will therefore be relevant in what follows to use the social protection debate as an important test case of the ability of individual national jurisdictions to pursue independent policies under different international financial regimes. Different relative levels of social protection can, for example, be indexed by different tax rates. Note, in this context, that if tax proceeds are assumed to be devoted to social spending then the higher tax rates actually represent the more expansionary fiscal policy because of the operation of the balanced budget multiplier [Sachs, 1992].

A SIMPLE ALGEBRAIC MODEL OF THE INTEGRATION PROCESS

A convenient starting point is the familiar covered interest parity (CIP) condition, which states that rates of return across financial centres should be the same when covered by a forward contract. This will hold when perfect capital mobility holds, in the sense defined above:

\[ (1) \quad r(t) - q(t) = (r + q)(t) - s(t). \]

In this formulation, \( r(t) \) is the domestic nominal interest rate at \( t \), \( (r + q)(t) \) is the logarithm of the forward exchange rate as quoted at \( t \) for delivery at \( t + 1 \), and \( s(t) \) is the logarithm of the nominal spot exchange rate. An asterisk (*) represents a foreign variable.

A much stronger condition is uncovered interest parity (UIP) which would imply that rates of return should be equal across financial centers even when not covered by a forward contract. This will not hold unless assets denominated in different currencies (and hence "backed" by different governments and/or social arrangements) are perfect substitutes. This, in turn, is unlikely to occur except in the case of a monetary union, in which there are no different currencies by definition, or possibly in the case of an extremely rigid and credible fixed exchange rate regime such as the nineteenth-century gold standard. In the general case, therefore:

\[ (2) \quad (r + q)(t) = s(t) \]

where the notation \( s(\ldots) \) refers to an expected value. The forward exchange rate is not, in general, equal to the expected future spot rate. They must differ by a risk premium, \( s(t) \), so that UIP does not hold:

\[ (3) \quad r(t) - q(t) = s(t) + 1 - s(t) + s(t) \]

Now recall the standard definition of the real rate of interest, \( r(t) \), and similarly the definition of the logarithm of the real exchange rate \( q(t) \), where \( p(t) \) is the logarithm of the nominal price level:

\[ (4) \quad r(t) = s(t) - [p(1 + 1) - p(0)]. \]

\[ (5) \quad q(t) = s(t) + p(0) - p(t). \]

Using equations (3), (4) and its "world" or foreign equivalent, and (5), we can then obtain the following fundamental expression describing international financial relationships:

\[ (6) \quad r(t) - r^*(t) = q(t) + s(t) - q(t) + s(t). \]

Equation (6) may be slightly unfamiliar in the sense that analogous expressions in the literature are usually quoted in nominal terms as in equation (3). The interpretation, however, is straightforward. If capital is mobile, real interest rates can differ between jurisdictions only if real exchange rates are expected to change and/or there is a risk premium [Frankel, 1992]. If real exchange rates are not expected to change (that is, if there is so-called ex-ante purchasing power parity) the condition reduces to:

\[ (7) \quad r(t) - r^*(t) = s(t). \]
In other words, a permanent discrepancy between real interest rates in different jurisdictions can exist only with a risk premium. It is important to note that this obviously could not be the case in a currency union or very rigid fixed exchange rate regime. However, equation (7) does show that a risk premium may be present whenever there are separate monetary regimes and the real exchange rate between them could potentially change. This is so even if currently the exchange rate is not actually expected to change.

 Paraskevopoulos, Psachas and Smithin [1996] and Psachas and Smithin [1998] have argued that, empirically, the risk premium is likely to depend on the either on the real foreign debt (credit) position, D(O), evaluated in domestic currency terms, or the ratio of the foreign debt position to GDP. That is, either:

\[ z(t) = z[D(O)] \]

or,

\[ z(t) = z[D(O)(Y(t))], \quad Z(t) > 0 \]

If so, and in either case, note that this would provide the basis for an argument that it is feasible for at least some of the small or medium-sized open economies to pursue an independent monetary policy, in the sense of driving real interest rates lower than in other jurisdictions, even in the modern global economy in which capital is highly mobile. This can be done by manipulating the risk premium.

The point is that although lower domestic real interest rates will certainly lead to capital inflow and a real depreciation of the currency, as the usual arguments suggest, a negative impact on the capital account is not necessarily a bad thing from the point of view of the "credit rating" of the domestic economy. In the first place, the current account will improve. Secondly, recall that another name for capital inflow, after all, is foreign investment. If this does not become capital flight, in which both the rentiers and their funds desamp, the domestic economy experiencing capital outflow is actually building up its credit position with the rest of the world (or reducing indebtedness) and hence improving future net flows of interest and dividend income for domestic residents. The extent to which the promises to pay of creditor nations are regarded as more trustworthy and reliable than those of debtors, this may improve the international status of the currency rather than damaging it. If low real interest rates are also good for output and employment, nations in which the domestic monetary authorities conscientiously attempt to deliver a relatively low domestic cost of capital may enjoy a virtuous cycle.

These arguments naturally presuppose a jurisdiction with sufficient credit to be able to issue sovereign debt in its own currency, and also at least audiopoint stability in the dynamic processes for real exchange rates and debt/GDP ratios [Psachas and Smithin, 1998]. With these caveats, however, the suggested mechanism does seem to repair what has traditionally been regarded as a lacuna in the typical Keynesian argument in favor of cheap money. For example, Meltzer [1989, 202] criticizes Keynes's [1936, 376] famous "euthanasia of the rentier" because - Keynes never mentions capital flight and does not explain how a single country can drive the ratio of interest to zero - . One response to this is to suggest that the Keynesian analysis is meant to apply to the world economy as a whole, or perhaps to a relatively self-contained regional unit such as the EU after a successful implementation of EMU. Another would be that Keynes was assuming that comprehensive capital controls would be in place. The present analysis however, suggests that even a relatively small player may be able to implement "Keynesian" policy, as long as the authorities retain control over their own currency, and even in modern conditions with an extremely high degree of capital mobility.

The above financial analysis can be related to other issues of public policy and economic integration by employing a simple macroeconomic model adapted from earlier work by Smithin [1994, 1997] and MacKinnon & Smithin [1993]. As suggested in the earlier section, an important practical example is the ability to provide different relative levels of social protection as indexed by the ability to levy different payroll tax rates (T' and T") in different jurisdictions. Recalling that in this particular context the higher tax rate represents the more expansionary policy, let a simple macroeconomic production function be given by:

\[ Y(t) = a(t - 1)N(t - 1) \]

where Y(t) is the output available for sale in (t), a(t - 1) is the average product of labor, and N(t - 1) is labor input. The most significant feature of this formulation is that production takes time, as in Keynesian monetary production. The output currently available for sale was actually produced in the previous period. It is not suggested that a one-period production lag is literally realistically descriptive. The point is simply that this is the minimal specification which makes allowance for the general principle that output is produced currently on the basis of expectations of future sales receipts. The latter, it can be asserted, certainly is realistic. An important implication is that the costs of financing must be provided for adequately in any calculation of total costs.

Under these assumptions, the income-based breakdown of GDP for the domestic economy will be given by:

\[ p(t)Y(t) = R(t - 1)[1 + a(t - 1)](1 + Y(t - 1)W(t - 1)]Y(t - 1) \]

where W(t - 1) is the after-tax nominal wage rate in (t - 1) and R(t - 1) is (one plus) the rate of profit generated by economic activity in period (t - 1). This rate of profit is actually realized in (t). Except for tax rates and interest rates, the convention is adopted that upper-case letters refer to the levels, and lower-case letters to the logarithms, of the relevant variables. Now, up-dating both equation (11) and its foreign equivalent by one period, taking logarithms, and using (10), we obtain:

\[ p(t + 1) = k(t) + a(t) + T(t + 1) + w(t) - a(t) \]

(12)

\[ p(t + 1) = k(t) + a(t) + T(t + 1) + w(t) - a(t) \]

(13)
where \( k(t) \) is the expected rate of profit. Finally, using the estimates of future prices in the expressions for real interest rates as in equation (4), and substituting these values for real interest rates into equation (7), we can obtain the following general expression for tax differentials between jurisdictions:

\[
T^*(t) - T(t) = \left[ a^*(t) - a(t) \right] - \left[ h^*(t) - h(t) \right] - \left[ w^*(t) - w(t) \right] - \left[ p^*(t) - p(t) \right] + z(t).
\]

This can be viewed a convenient summary of all the factors which potentially may allow tax rates (and, therefore, in the present context, relative levels of social protection) to differ between jurisdictions.

Now, presumably, one of the arguments supporting the case that differences in tax rates will eventually be eliminated by economic integration, is that at some stage complete factor price equalization will eliminate differences in profit rates and after-tax real wage rates. That is:

\[
h^*(t) - h(t) = [w^*(t) - p^*(t)] - [w(t) - p(t)] = 0.
\]

Also, it may well be argued that technology transfer could eventually eliminate productivity difference between jurisdictions:

\[
a^*(t) = a(t).
\]

Even if equations (15) and (16) hold perfectly, however, it will still be the case that tax rates can differ between jurisdictions as long as those jurisdictions are in different currency areas. In other words:

\[
T^*(t) - T(t) = z(t).
\]

It can be concluded, therefore, that in the absence of a move towards either a monetary union, as in the European EMU, or an irrevocably fixed exchange rate regime (either of which would eliminate the risk premium), some scope for different social and fiscal policies remains, even if economic integration is absolutely perfect in all other respects. The latter, of course, is itself an unlikely scenario. Note that another way of expressing this result would be as follows:

\[
T^*(t) - T(t) = r(t) = r^*(t).
\]

According to equation (18), monetary policy and fiscal/social policy are very closely connected. In order to have a higher (lower) tax rate than foreign competitors it is necessary to have a lower (higher) real rate of interest. To put the point slightly differently (again assuming perfectly free trade) it would not be possible to have the same tax rate in a multi-currency world unless the same monetary policies were pursued also. When the results are expressed in this way, the implications for income distribution and the political economy of the system are also clear. From the rentier perspective clearly the high interest/low tax regime would be preferred, and vice versa for those advocating more generous levels of social protection. In the context of current affairs, it might well be argued that from the former point of view a currency union with a strong and "independent" central bank would certainly be one way to achieve the desired result.

**CONCLUSION**

Some twenty-five years ago the famous monetarist economist Milton Friedman (1974, 162) made the following comments on some of the policy positions taken by himself and one of his main academic opponents, Abba Lerner, known as the exponent of Keynesian "functional finance":

... Lerner and I were graduate students in the early 1930s ... we have a somewhat similar Talmudic cast of mind and a similar willingness to follow our analysis to its logical conclusion. These have led us to agree on a large number of issues ... from flexible exchange rates to the volunteer army ... (yet we were very differently affected by the Keynesian revolution ... Lerner becoming an enthusiastic convert ... I remaining largely unaffected and somewhat hostile ...)

[Lerner, 1943]

It is the remark about exchange rates which is most directly relevant to the concerns of this paper. Obviously, Friedman and Lerner did not agree on this issue because they favored similar macroeconomic policies. In effect, they were both setting out the conditions required if either of their favored policy prescriptions (disinflationary, or anti-inflationary, in the one case, and expansionary in the other) were to be implemented independently in the different jurisdictions. Implicitly, there is a suggestion that both policy advocates feared that the more internationalist regimes would not implement their favored policies. For example, in the case of the monetarists, it was feared that the Bretton Woods arrangements of the day would spread inflationary pressures. At the end of the twentieth century an opposite concern might be more realistic.

In the context of the economic integration debate, the standard argument has been that any type of independent policy is in any event progressively less feasible as the process of globalization continues. In this paper, however, it has been shown that some scope for independence will remain as long as the integration process stops short of full-blown monetary union and exchange rates remain (potentially) liable to change. This is not the same thing, of course, as advocating variability in exchange rates. Another way of describing the above analysis is that an independent monetary policy is in fact necessary if an independent policy is to be pursued in other fields also, such as fiscal policy and social policy.

It may finally be remarked that, in this respect, the proponents of monetary union, the abolition of independent national currencies, or simply rigidly fixed exchange rates...
change rates, seem to have their arguments the wrong way round. They tend to argue that the loss of national sovereignty comes first, making such things as currency union, economic union, and eventually regional or world government, an inevitability. In fact, it would be the deliberate abandonment of independent national currencies, as is currently underway, for example, in Europe, which would make a loss of sovereignty in other areas unavoidable also.

NOTES

This paper draws on earlier joint research reported in Paraskeopoulos and Smithin [1986]. However, the particular views expressed here should be attributed solely to the present author.

1. For example, a headline in the Toronto Star for December 19, 1997, reads as follows: "IFM new de facto government for Britain?"

2. See, for example, Temin's [1989] analysis of the battleful effects of attempts to return to the international gold standard in the inter-war period.

3. Actually, a number of the most important actions in this category are geographically in Central Europe rather than Eastern Europe, but the acronym suggested by Smith is retained here for the sake of simplicity.

4. It is reasonable to assume that the propensity to consume is higher for recipients of various forms of social security than for those receiving other categories of income.

REFERENCES


