
Building an Alternative to the Optimum Currency Areas Theory: The Embedded Currency Areas

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Résumé

Studies to assess the economic outcome of the European monetary union are numerous and are incorporated in a broader field which analyzes the interregional adjustment according to the exchange rate regime. The Optimum Currency Areas (OCA) theory is traditionally mobilized to evaluate the costs and the benefits of a fixed exchange rate regime. However, this specific framework does not provide any valid conclusion because of its inconsistency.

This article will try to participate in the challenge of building an alternative to the Optimal Currency Areas (OCA) theory by using the McNamara's (2015) framework of Embedded Currency Areas (ECA) based on the concept of sustainability rather than optimality. Instead of only focusing on a monetary union as McNamara did, we intend to discuss the sustainability of a different type of fixed exchange rate according to their rigidity, the degree of political integration and other criteria from the OCA theory. This research hypothesis will be extended by specifying an important element relying on the concept of sustainability: the necessity for a fixed exchange rate regime to allow economic growth. A fixed exchange rate regime is said to be sustainable when economic growth can occur.

To build our framework, we will mobilize the optimality criteria developed by the OCA theory and examine their effects on the economic growth through three macroeconomic indicators: employment, price level and balance of payment. A fixed exchange rate regime is especially sustainable when it exists in an autonomous political authority, which corresponds either to an adjustable exchange rate regime without capital mobility and high trade integration or a monetary union with a political union. This framework is then applied to the European monetary union and one can conclude that it is unsustainable.

Mots-Clés: Optimal currency areas, Embedded currency areas, fixed exchange rate regime, European monetary union, sustainability

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