LETTERS TO THE EDITOR

Is Europe an Optimum Currency Area?

One would think that Mr. Faruqee, in his article on the euro's fifth anniversary (June 2004), would have raised the most basic of questions about the relative merits of the idea of a single currency for Europe. Does Europe remotely satisfy the criteria for an optimum currency area, and, if it does not, what does Europe need to do to bring itself closer to meeting those criteria?

This question seems to be particularly relevant in the face of the very lackluster economic performance of Germany, Europe's largest economy, which is suffering from the lack of an independent monetary policy to stave off deflation. It also seems to be relevant to the question of whether it makes sense to include yet another 10 countries in the euro experiment. Those countries are even more economically diverse than the original 11 countries that adopted the euro in 1999 and will only add further strain to the ECB's "one monetary policy fits all" experiment.

Historic experience suggests that a currency union similar to that of the euro will hold together only if that union satisfies the criteria of an optimum currency area. Among the more important of those criteria are economic homogeneity among members, wage flexibility, labor market mobility, and a system of federal fiscal transfers. Does Europe really satisfy those criteria? Can one really be sure that, over the next five years, Europe will not be subjected to an asymmetric shock that will reveal the weak economic underpinnings of Europe's Grand Currency Experiment?

Desmond Lachman, Resident Fellow
American Enterprise Institute
Washington D.C.

Mobilizing against disease

I agree that better health can result in sizable economic returns (March 2004 cover story). Developed countries have a major role to play in promoting better health in poor countries. When the United Nations (UN) world summit on sustainable development was held in Johannesburg in 2002, the rich countries promised to put real resources behind the Millennium Development Goals, including by striving to achieve the development aid target of 0.7 percent of GNP. But the United States spends only 0.1 percent of its GNP on development aid and just $200 million on the UN-sponsored global fund to fight AIDS, tuberculosis, and malaria. A lot more should be done.

How the money is spent is also important. Often, not enough money is spent on fighting the most common diseases. Studies in some provinces of Tanzania show that only 13 percent of the health budget is spent on diseases like malaria, measles, and diarrhea, although they account for 28 percent of the disease burden. In contrast, tuberculosis, which accounts for less than 4 percent of years of life lost, received 22 percent of the budget.

Finally, if the United States and the European Union eliminated subsidies to their farmers, they would be able not only to spend more on development aid but also to help farmers in poor countries help themselves, particularly in sub-Saharan Africa.

As Jeffrey Sachs says, what the world needs is more money and time to mobilize "Weapons of Mass Salvation."

S. Viswanathan
Bangalore, India

Use the locals, not the globals

One can only agree that more money and more reforms would make a difference for poor countries trying to reach the Millennium Development Goals (December 2003). The country-by-country analysis on progress (or lack thereof) toward the goals is revealing. With such diverse performances across goals as well as countries, it was disheartening to learn that the least progress has been made in improving child mortality and maternal health.

Poor countries desperately need better infrastructure, especially in water and sanitation. To improve conditions, more needs to be done to build local awareness and help people mobilize. Infrastructure should be built by local management and local labor and should be harnessed for long-term institution building, but there is no mention of local initiative anywhere in the Millennium Development Goals. While aid agencies could play a catalytic role, the main responsibility should be passed on to local leaders. Infrastructure building through local efforts could be an important goal.

Dr. K.U. Mada
Mumbai, India

Ethics needed

I found your article on the European "conundrum" (June 2004) problematic. It speaks of the "twin impulses . . . toward social solidarity and equity, on the one hand, and financial discipline and economic efficiency, on the other," as if they were of equal value. It seems to me that the latter two are no more than the means for achieving the first two. The economy is for the people, not vice versa.

The whole June issue leaves me even more strongly convinced that the international community will not be able to move effectively against poverty until the globalization that it promotes is modified by an ethic about which it continues to seem ambivalent.

Martin M. McLaughlin
Center of Concern
Washington, D.C.

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