The Transformation of Trade and Monetary Regimes in Europe

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One approach to the relationship between trade and monetary zones is through recalling the three uses of money: means of settlement, numeraire, and store of value. The first two of these bring money and trade together, but the third is a separate matter. The rate of inflation can be chosen apart from the trade regime. For this reason it has not been self-evident whether the frontiers of monetary and trade regimes should coincide.

This choice, of coincidence or not, of regimes involves a tradeoff. It is not quite the same tradeoff as the familiar Phillips curve between unemployment and inflation. But it is a cousin tradeoff, in this case between the microeconomic efficiency gains of coincidental regimes and the macroeconomic costs of not being able to pursue an independent monetary policy.

In federal countries it is taken for granted that the monetary and trade frontiers coincide. This is true not only of those with stable constitutions. It is also seen today in the USSR, where debate over the new Union-republic Treaty rightly recognizes the maintenance of the single money and single market as the litmus test of whether the Union survives or not. This is because the political structures required to manage the market and the money are at the heart of the civil functions of federations.

In the textbooks of international economics much attention is given to the opposite case of noncoincidence of frontiers: the liberal-monetarist paradigm of free trade coupled to a floating exchange rate. While this does not attract much support in practice today for intra-European affairs, it is more relevant for intercontinental economic relations.

Europe today is neither of these cases. It is a seething mass of integrationist, disintegrationist, and regime change movements. The transformation of trade and monetary regimes is the concern of virtually every government.

The options in the choice of trade and monetary regimes are in fact numerous and permit fine graduations. They are listed in Table 1 under three distinct regime variables: trade regime, currency convertibility, and exchange rate. Each of these offers a choice matrix, with degree of openness or convertibility or fixity in one dimension and the extent of regional to global coverage in the other. Several of these many combinations are being tried or considered by one government or another. Is there a pattern or trend in regime development? Let us first recall what is actually happening and then try to interpret.

What is happening to Europe's regimes?

Much is happening to the trade and monetary regimes in each of Europe's four regional groups—the European Community, EFTA, the countries of East and Central Europe (PECOs for short, to use the French acronym which appears to gain usage), and the USSR.

Within the EC the single market bulldozer maintains its momentum to the end-1992 finishing line. With one and one-half years to go, the scorecard reads 201 acts of EC legislation finally adopted out of the total of 282 required.

On the monetary side, the long march to monetary union was effectively resumed in 1988, soon after the single market program had, itself, become credible in the eyes of public and political opinion. The overall design of the monetary union campaign was established in the Delors Committee report, which became a landmark document. This led to the convening of an Intergovernmental Conference to draft a new Treaty of Economic and Monetary Union. A complete institutional infrastructure is now in an advanced state of preparation. This should be concluded by the

Table 1
Hierarchies of Trade and Monetary Regime Choices

Trade
T1 Bind trade policy internationally
T2 Free trade
T3 Customs union
T4 Single market

Currency Convertibility
C1 Current account convertibility for residents (internal convertibility, means eliminating multiple exchange rates)
C2 idem, for nonresidents too
C3 idem, plus capital account convertibility for residents:
C4 idem, plus for nonresidents too = total convertibility

Exchange Rate
E1 Float
E2 Crawl or soft peg
E3 Hard peg
E4 Monetary union (really fixed exchange rate or single currency, requiring total convertibility)

Notes:
Countries beginning their integration into the world economy may choose regime **T1+C1+E1** or E2, and this may well be at a global rather than regional level.

Countries that are fully integrated will operate regime **T4+C4+E4,** necessarily at a regional level. This usually means political federation, but there are also examples that combine small dependencies with larger powers.

As the trade regime becomes more integrated with elements of T2, T3, and T4, it will certainly become broken up in geographic coverage (except for the case of unilateral free trade), with a two-or-more-tier system (also sharing a **T1** regime with other regions). The monetary regime may also become a two-tier system, in the case that there is pegging to a regional system with E2 or E3, and must do so with E4.

end of 1991, ready for ratification by all national parliaments in the course of 1992. A second, parallel Treaty on Political Union is also being prepared, which will mature somewhat the powers of the EC institutions in several domains of microeconomic policy as well as foreign and security policy. Both treaties should be available for use by the beginning of 1993, coinciding with the completion of the single market. The date of commencement of the monetary union is so far unknown, and will remain a politically controlled rather than automatically triggered decision. It might be expected in the second half of the 1990s. Meanwhile there have been some important steps consolidating the European Monetary System, Spain and the United Kingdom joining the exchange rate mechanism with the wider 6 percent margins, and Italy graduating to the narrower margins of the core group.

The EFTA countries negotiate with the EC a "European Economic Space," which would mean being practically within the single market, but without full membership of the EC. Designed as a stopgap measure before either side was ready for another enlargement of the European Community, these negotiations are proving not particularly easy to conclude (rather like a contract to get 90 percent married). The stickiest points seem to be fishing rights, financial contributions to EC regional policy, and trans-Alpine transport rules. Meanwhile Austria and Sweden became impatient and tabled full EC membership applications (in mid-1990 and mid-1991, respectively), but without wishing to interrupt the Economic Space negotiations which have a more immediate time-horizon in any case. The Commission of the EC, late in July 1991, decided to recommend to the council the opening of accession negotiations in 1993. It is widely expected that Norway will follow Austria and Sweden in lodging a membership application, and political taboos over considering such a move appear to be evaporating in Finland and Switzerland.

Monetarily, Austria and Switzerland have long pegged to the deutsche mark. The Nordic countries until recently all pegged to their own preferred baskets. Norway, which had been considering various forms of association with the European Monetary System for some time, switched unilaterally to peg on the ECU in 1990.

Sweden and Finland followed in 1991.

Before moving to the PECOs, let us not overlook the special case of the ex-East Germany,. In 1990, we saw the biggest bang regime change in peacetime histbry, with total and virtually instant change for the domestic economy coming under the law. of the Federal Republic and the EC, the trade regime as part of the EC, and money with extension of the deutsche mark area. Creative destruction proceeds with little compromise but much budgetary support from the federal budget, as industrial production collapsed to the extent of 60 percent in the first 'year. The beginnings of a building boom may now be a leading indicator of recovery and, eventually, a new *Wirtschaftswunder*.

For the regular PECOs the regime changes are also decisive but less immediately clear-cut. Nonetheless liberalization, privatization, and stabilization measures flow in rivers. Some surprises emerge on the speed of reform by country, with Bulgaria moving ahead fast (Commission of the EC 1991).

The predominant external trade and monetary systems of the PECOs collapsed simultaneously in the first half of 1991. While Comecon was legally wound up in this period, the economic collapse of these extraordinarily deep trade relations (50 to 60 percent drop in trade volumes) was precipitated by the .USSR's insistence that from January 1, 1991, all transactions should be contracted and settled in world prices and hard currency. Economic historians may take a while to sort out quite what happened amid contributing causes (lack of hard currency liquidity, other sources of disruption in the USSR, and so on). In any event, major PECO enterprises such as URSUS tractors in Poland and ICARUS buses in Hungary are on the brink of bankruptcy. Within the USSR the chronic shortages of industrial inputs from the PECOs contributed to the loss of 10 percent of GDP in the first half of 1991, compared with a year earlier. For students of linkages between trade and monetary regimes, here was a case of radical disintegration of both together.

The trade regimes of the PECOs see two important tendencies. First, the leaders of the group are scrapping quantitative restrictions and administrative licensing systems, replacing them with relatively uniform tariff levels averaging around 20 percent. Second, Poland, Hungary, and the Czech and Slovak Federative Republic (CSFR) have all set their sights on eventual membership in the EC. While political objectives here are obviously important, the economic point is to establish a firm reference and discipline for their internal market policies. The EC has accepted to enter already into negotiations with these countries over a new form of association agreement, in which the ultimate objective would figure in the preamble (even if the EC discourages hope for prematurely rapid accession).

Monetarily the PECOs have been moving fast to establish some kind of internal convertibility for their currencies, coupled to price liberalization. Two countries have not been able to avoid episodes of hyperinflation (Poland and Yugoslavia). Stabilization policies have made some use of exchange rate pegging, usually to baskets. Inflation performances now see these countries in three groups: the CSFR and Bulgaria in single digits, Poland and Hungary at around 30 percent, and Romania and Yugoslavia at around 100 percent.

Within the USSR there have been both trade disintegration and monetary disintegration. Early this year inter-republican trade barriers began to proliferate in the form of export controls and refusals to supply. Some republics prepare or consider introducing their own currencies (the Baltics and the Ukraine). Ration coupon systems also proliferate, and these become in some cases, quasi-currencies. The Ukraine embarks now on overstamping rubles with a " U in order to have an own currency more efficient than ration coupons. These tendencies became so alarming in early 1991 that the leaders of nine republics and the Union resolved to work constructively together to agree on a new Union-republic Treaty. This culminated in a large degree of agreement on a text late in July, which is now to be open for formal signing.

The USSR's external trade and monetary regime is now characterized most sharply by the massive gap between the official, commercial exchange rate of the ruble ($1=1.6R) and the market rate (official tourist rate, auction rates, black market), which range from 26 to 36 to the dollar. This discrepancy of between 15 to 20 times is much wider than even the maximum observed in Poland before the monetary reforms there of 1990 (seven times). The USSR authorities have rightly come to give prominence to the objective of eliminating these multiple rates with internal convertibility of the ruble, as of January 1, 1992 according to official plans. However, the necessary accompanying measures are not yet clearly established, while President Gorbachev's submission to the London Summit argued that external financial aid would be required to make this possible at all quickly.

What are the driving forces?

The EC began the 1980s with a high but incomplete degree of market integration. The young European Monetary System also marked an intention to become more integrated monetarily. One could imagine, replaying history, that the EC could have been content with this as a status quo. Instead, integration ambitions were radicalized with the 1992 program and now that also for Economic and Monetary Union. Why did this happen, noting also the time lag of the monetary action about five years behind that for the market?

The single market program was a reaction to the period of Europessimism of the early 1980s. The EC felt itself falling behind both the United States (then enjoying the Reaganomics boom) and Japan. The intuitions of the politicians and business interests coincided: to create a truly frontier-free EC market of more than 300 million consumers would result in a dynamic impetus, boosting investment and efficiency. Economists were invited to examine how this might be so (Commission of the EC, 1988). The conclusion was that indeed only a market of at least this size could combine the advantages of economies of scale, product diversity, and competition. When the 1992 program became credible, in part because of new treaty powers to expedite the needed legislation by majority voting on many such matters, it appears that there was indeed a dynamizing effect on the strategic plans of many enterprises, both European and multinationals, who scrambled to position themselves in expectation of this new market environment.

But also, as soon as the 1992 program became credible, debate began over whether the single market needed a single currency (or other form of monetary union) as its handmaiden. The crucial argument that emerged was that the status quo of the European Monetary System risked being disturbed by the elimination of capital controls required for the single market (see the contribution of Krugman to Padoa-Schioppa and others, 1987). The European Monetary System at that time was showing some signs of increasing monetary stability and inflation convergence. But the imperfections in this convergence coexisted with exchange rate stability partly because of the insulating properties of capital controls. With their elimination, the EC faced the prospect either of renewed exchange rate instability or the need to heighten the degree of monetary policy to the point that monetary sovereignty at the national level had little substance left. The bicycle theory of integration had asserted itself again. Either you keep moving or you fall off.

The politicians elected to push ahead to Economic and Monetary Union, albeit at a measured pace, with several stages and check-points on the way. Economists were again invited to go to work, this time to analyze the benefits and costs of adding a single money to a single market (Commission of the EC, 1990, and Emerson and Huhne, 1991). They reviewed evidence of the advantages of price stability itself, which a well-designed, independent, federal central banking system, inheriting a reputation for stability from some of its members, might offer. They produced evidence on the benefits of eliminating currency transaction costs and of having a leading international currency. In these respects the linkage between the single market for financial services and single money was evident. The full benefits of an integrated market require a single currency, at least at the level of microeconomic effects.

The major cost, or risk of cost, in moving to the single money would be the loss of the exchange rate as a policy instrument. How important is this risk of cost? The research done on the EC case suggests this to be an empirical rather than a categorical matter. It hangs upon the extent to which economic shocks that call for adjustment policies tend to be national in character (rather than common, or regional, or sectoral), or otherwise asymmetrical (in the sense that nations may react differently to common shocks). It also hangs upon the efficiency of the exchange rate instrument in remedying such shocks. For the EC the findings were that the value of the exchange rate instrument was rather substantially reduced, compared to some preconceptions and doubtless other regions of the world that are less integrated or adjusted to market conditions.

The EC's case for its own market and monetary integration, and for linkage between the two, thus turns out to be quite strong on purely economic grounds. To go from free trade 'to a single market adds substantial benefits, but politically it requires a much greater concession to the needs for common legislation and law enforcement than international regimes seem capable of (indeed this involves the very distinction between international and federal regimes). To go to monetary union also offers substantial benefits, and the risks of costs seem in the EC case to be acceptably reduced. Monetary union also makes strong requirements for federal rather than just international institutions, unless one accepts a hegemon, which is not the case between EC countries. Finally, to do the one without the other (market or money) means either failing to exploit the full benefits of each or, worse, creating new risks of costs.

We may also note in passing a tentative conclusion. The prerequisites for a mature and stable regional bloc, combining trade and monetary structures, seem very demanding. Politically it means moving out of the arena of international relations and into the different arena of federalism.

How do these arguments apply to the other three regional groups in Europe?

The ERA countries, as dependent on trade with the EC as the member states of the EC themselves, had clear reasons to react quickly to the EC's 1992 program. The new industrial-structuring dynamic of 1992 threatened their countries to become less-favored locations for their own multinational corporations as well as internationally 'mobile investment generally. For example, Sweden's multinationals swung powerfully into the EC. It became vital for ERA governments to persuade business that their countries were "as if" in the EC single market. So began the "European Economic

Space" negotiations. The institutional implications of being "as if' in the EC single market proved to be an important issue. In being prepared to compromise over matters of sovereignty in this process, in the sense of accepting virtual extra-territoriality of EC jurisdiction, these countries also seemingly began to overcome their reluctance to seek full membership. This reinforces the point made above about moving from the international arena to that of federalism.

On the monetary side, the recent moves of the Nordic countries closer to the ECU appear to have been motivated by two factors. The first is to reduce exchange rate variability in relation to the EC market caused by dollar and yen movements in their former baskets. Such movements confused the industrial logic of the European Economic Space. The second is to enhance the credibility of their macroeconomic policy commitment to price stability. One might wonder why the ECU should be better than their former baskets for this purpose. It seems to be more of a political institutional point. The baskets were highly anonymous and technical things. By comparison the ECU represents growing political commitment to ties with the EC, and a monetary bloc led by the deutsche mark. Also, the risks of macroeconomic cost in reducing the degree of exchange rate flexibility for these countries is almost certainly no greater than for the EC countries themselves. Here too, then, readiness to step onto the integration train is an important part of the story. In so doing, the geographic organization of their trade and monetary regimes converge.

These West European case studies in trade and monetary regime linkages amount to no more than a fine-tuning of systems, by comparison with the issues at stake in the revolutions under way to the east. The very topic of the relationship between trade and monetary regimes has an academic ring to it, seemingly far removed from the desperate battlefields of regime change in the PECOs and the USSR. How wrong one could be. The key to executing these regime changes, if one is to single out a particular action, is the convertibility of the currency. This is the pivotal action linking trade and monetary systems.

In practice, we are talking here of current account, or internal, convertibility (for a taxonomy of different forms of convertibility and an excellent discussion of the issues for Eastern Europe, see Asselin, 1991 and Bofinger, 1991). Westerners may be inclined to yawn at the subject, since, for example, the EC has seen many of its countries approach full convertibility of their currencies at a leisurely pace over decades. The history of the European Payments Union offers a more exciting episode in the conjunction of trade and payments initiatives.

Even this latter example is not comparable in importance to the convertibility reforms now undertaken or envisaged in the PECOs and the USSR. Only through assuring internal convertibility — that is, current account convertibility for residents—can price reform and liberalization be achieved with the information and discipline of world market prices; only in this way can multiple exchange rates and currency rationing systems be efficiently swept away; only in this way can the overwhelming incentives for corruption be eliminated. Let us be clear on this last point. We are talking about a social poison much more serious than a marginal black market sector. When exchange rate distortions of the order of multiplies of 7 to 15 exist as Poland knew and the USSR still knows, then any economic agent making international trade or monetary transactions is invited to concentrate on the opportunities for illegal arbitrage of some kind. This is not good for the political reputation of the market.

Convertibility assures that money can fulfill two of its functions at least, as numeraire and means of settlement. What about the third function, store of value? This was suggested at the beginning to be something that could be disconnected from the choice of trade regime. This is normally so, but not in the special situations today of the regime revolutions of Eastern Europe. If convertibility is introduced before macroeconomic stabilization and elimination of the monetary overhang, then the result is an excess depreciation of the currency to the point of risking hyperinflation. This, in turn, risks capsizing the political viability of the reform process, including (history suggests) the viability of democracy, These problems return our attention to the advisability of securing external and credible anchors to market reform and stabilization policies.

Where are these countries going to get their external anchors?

Poland, Hungary, and the CSFR have all been quick to raise the issue of ultimate EC membership. The economic point here is to borrow the policy rules and credibility of a third party, given the initial fragility of political conditions at home. With an opening of the prospect (even undated) of EC membership, these countries can more easily make the strategic decision to shadow the rules and regulations of the internal market of the EC. Why take the EC's rules for this purpose? Clearly not because the EC's laws are thought to be better or worse than those of the United States, but because of a strong politico-historical desire to "rejoin Europe." Many things are confused in these countries in the aftermath of revolution, but this point is not. Noneconomic sentiments can thus be used to help carry the economic reform process through the difficult transitional period (see Portes, 1991 on these questions).

Similar issues are, if anything, even more relevant in the monetary domain, where for stabilization policy, the strong or weak institutional credibility of the authorities is vital in determining whether there be low or high transitional costs. The use of conditional credits from the International Monetary Fund (IMF) and other Western donors (including the EC itself) is already important for almost all the PECOs and looms on the horizon for the USSR. But these credits are only of a few years' duration. The long-term question of adherence to some zone of monetary stability is also posed. Here the PECOs do not yet have clear positions. Their present practices see a predominant preference for homemade currency baskets as numeraire, with an uncertain degree of commitment to exchange rate parities. The impression is mostly one of soft pegging to the basket, with fairly frequent devaluations. Alternative numeraires are the dollar (which Poland tried for a while before switching to a basket), the deutsche mark (chosen by Yugoslavia), and the ECU. One could imagine the PECOs following the Nordic countries in switching from their anonymous and technical baskets to peg on the ECU. But that is not the case for the time being.

There is a particular reason why the PECOs may in due course choose to coordinate their choices of monetary regime. All of them will be striving to succeed in creating internationally competitive industries in similar segments of the world hierarchy of industrial technologies. They will not want to add to their difficulties by indulging in wild, unpredictable swings in competition with one another. The EC itself may also become interested in this question, as the PECOs and the USSR overcome the stage of creative destruction of their old regimes and start coming on stream with large-scale export production. When the 400 million population of this group become active members of the world economy, the EC will know about it first and foremost. Let us recall the Swedish 16 percent devaluation out of the blue in the early 1980s, which ruffled the feathers of its free-trade partners in the EC and EFTA, and imagine that sort of thing happening twice a year on a scale ten times as important. One could imagine the association agreements between the EC and PECOs providing for issues of competition policy (subsidy control, price decontrol), currency convertibility, and monetary cooperation.

To summarize on the PECOs, one may imagine a two-stage evolution of their trade and monetary regimes, and of linkage between them. In the first stage, already under way, the accent is on open-economy fundamentals. World price structures are imported, trade policies are normalized in the GATT, current account convertibility toward the world is established, and the exchange rate is loosely pegged on some international numeraire while the search for the equilibrium level is made. In a second stage, these regimes are more fine-tuned, with an importing also of EC internal market policies and cooperation with the EC on monetary policy for both stabilization and competition policy purposes, consistent with the wider framework of the GATT and IMF.

These PECO cases are simple, compared to that of the USSR. The country spans two continents, with a deep cultural attachment to Europe in the West but no less affinity, for ethnic and economic reasons, for Asian connections in the five central Asian republics and eastern parts of the Russian federation. Moreover, as a land of wide open spaces and big horizons, one also senses a natural affinity of Russians toward Americans. These simple but basic facts are cautions for advocates of trilateralism in the West. When the USSR enters the international economy, it does so at a world and not at a regional level. The G-7 summit is not the only illustration of this. There is also the European Energy Charter which quickly came to embrace the United States and Japan when it became clear that the USSR was interested, even though this is an EC-sponsored initiative.

To the USSR, the EC offers something of a role model rather than membership prospects, even though the latter question crops up surprisingly frequently in nonofficial conversations in Moscow. The 9+1 Treaty of Sovereign States, now ready for ratification at the level of major principles, is in the economic field closer to the confederal constitution of the EC presently under negotiation in the two intergovernmental conferences, than the strongly federal constitutions of the United States or Germany. Most republics of the USSR are in fact now more restrictive in agreeing economic powers to the center than most member states of the EC. The current organization of Western Europe offers several ideas for the USSR. The EC itself warns that the 9+1 should not go too far in emasculating the legal competences of the center, if the single market and single money are to be restored (indeed restoration, because today the market and money of the USSR are fragmented). For the secessionist six republics, or however many (it seems that Moldavia and Armenia might rejoin the fold), the EC-EFTA relationship offers an example of how a large and small pair of groups of states can reconcile together deep economic integration and political independence.

The biggest challenge of any surveyed in this paper, however, is that of achieving the macroeconomic stabilization of the ruble, in a setting marked today by uncontrolled budgetary decentralization and populism, and a lack of political independence and credibility of the monetary authorities. With a 20 percent GDP budget deficit, a 100 percent inflation rate, and terribly reduced consumption levels, the task is appallingly difficult.

For reasons already stated, the internal convertibility of the ruble has to be the pivot of the operation as a matter of economic policy. But there is the no less urgent task of institution building. For the central bank, the Federal Reserve, the Bundesbank, and draft statutes of the European Central Bank offer a well-honed pedigree model. But this means that the governments of the republics as well as the center have to learn to do without the prerogative to order the supply of bank notes. The budgetary model will have to be one, de facto, of coordination between five major players: the Union, Russia, the Ukraine, White Russia, and Kazakhstan. The Union of Sovereign States is condemned to sharing with the EC the trials and tribulations of seeking cooperative behavior among a small group, where game theory is more important than legal rules.

Summarizing on the USSR and trade and monetary regimes, three points are to be stressed. First, the survival of the Union clearly depends upon the linked dismantling of trade barriers and achieving the internal convertibility of the ruble. Second, the same convertibility of the ruble must be the pivot of a set of reforms to introduce the USSR into the world economy. Third, the next task will be to refine the internal market and monetary regimes of the USSR, perhaps along the lines being pursued by the EC. Fourth, the USSR seems clearly destined to integrate with all the main regions of the world economy, not primarily with just one region; the model of a three-region world soon encounters limits to its adequacy and acceptability.

Conclusions

The contemporary European scene offers four different case studies of the relationship between trade and monetary zones.

(1) The EC is the classic case of integration, which the GATT statutes recognized as warranting the formation of a customs union. The member states are deeply integrated economically, compact as a geographical group and rather homogeneous in terms of political values and interests. The EC now passes up the integration hierarchy from customs union to single market, and so on to economic, monetary, and political union. Both market and monetary integration are shown by studies to be beneficial in their own right but also in ways that are significantly interdependent. The integration process reveals an endogenous dynamic—that is, intermediate degrees of integra-

tion do not appear to have been steady-state regimes in this case.

(2) The EFTA countries are also classic examples of the small open economy next to a large neighbor; together, they are comparable to Canada in relation to the United States. They opted during many years for regional free trade with the EC, with a mixed history on the monetary side, sometimes (in some cases) joining the EC (or deutsche mark) monetary zone as well, sometimes not. Recently, however, the integration dynamic of the EC has spilled over to affect their perceptions of their own interests. Thus, increasing association with the EC's monetary zone and, its single market and some full membership applications are observed. The economic case for these developments seems very much the same as for the EC. They become sufficiently strong to override traditional preferences for political independence.

(3) The PECOs make revolutionary changes to their systems, joining the world market economy. In a first stage they join the international and not a regional system for both trade and monetary relations. To import world price structures with the aid of a convertible currency is the first priority. For a second stage of refinement of their new systems, questions of special regional market and monetary relations emerge. The issue here is to borrow from robust nearby systems so as to buttress the fragile reform and stabilization process. This concerns tying more closely to the EC internal market with the eventual prospect in at least some cases of political integration (negotiations are already begun with three), and closer monetary relations with the European Monetary System could become attractive for the same reasons as the EFTA countries found.

(4) The USSR also proceeds with its revolution. Trade and monetary system linkages are dramatically evident everywhere: negatively, in the disintegration of Comecon trade and payments, in the proliferation of inter-republican trade barriers and nonconvertible quasi-monies such as ration coupons; and positively, it is to be hoped, with the crucial need

for at least partial convertibility of the ruble as pivot of a comprehensive set of liberalization and stabilization measures. The size of the USSR makes it fundamentally interested in the world, rather than a regional system or two. Debate over a new federal constitution in the USSR follows the classic pattern of all existing or EC incipient federations; the combination of a single market and single money is the litmus test of federal union.

Reflection on the case of a Euro-Asian USSR already suggests that, to some, ideas of a world model of a small number of trade and monetary regions are too simple. Moreover, the political integration properties of the EC case are not visible elsewhere. The Pacific area looks like being also, like the USSR, most interested in as open trade relations as possible with both North America and Europe as well as among themselves. In the Americas there are many questions still over the plausible extent and depth of hemispheric integration.

For those parts of the world where the case for classic integration-economic, monetary, and political—is not yet evident, it seems unlikely that a neat pattern of coincidence of trade and monetary zones will emerge.

The rumblings in the Americas and the Pacific about regional systems may be interpreted in part as a warning to the EC not to abuse Article XXIV of the GATT, as much as precursors of fully developed regional blocs. The GATT article permits customs unions and free trade areas on condition that substantially all trade is covered and external tariffs for the rest of the world 'are not raised. All countries are free to choose whatever monetary regime they wish to accompany their trade policy. To opt for a coincidence of trade and monetary zones is thus also largely a free one from the standpoint of international agreements.

But what is a regional bloc? Is the EC going to be any more of a "bloc" than the United States, which usually does not answer to this name? If by "bloc" we mean something less than an outright federation, actual or envisaged, it is not self-evident that a world of large regions of trade-plus-monetary systems is the way to go. The

GATT and IMF have increasingly globalwide geographic coverage and are highly significant organizations for all except those who are looking fancifully for a system of world government. Their limits are really only those inherent in international relations as opposed to federations or integration movements in that direction. The case of coincidental trade-plus-monetary zones may justify itself from time to time but should not be viewed as the new paradigm.

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