

Contents

<i>List of figures</i>	page	xiii
<i>List of Tables</i>		xiv
<i>Preface</i>		xvi
<i>List of conference participants</i>		xvii
<i>Foreword</i>		xix
1 Introduction		1
<i>Alberto Giovannini and Colin Mayer</i>		
1 Financial market integration		1
2 Theories of government competition		2
2 Banking competition and European integration		9
<i>Xavier Vives</i>		
1 Introduction		9
2 Financial intermediation, regulation and side effects		11
3 Deregulation and integration		16
4 From collusion and regulatory capture to imperfect competition		17
5 Segmentation and the benefits of integration		22
6 Mergers and the intensity of competition		24
7 A final remark: the consistency of proposed regulations		25
Discussion		31
<i>Jean Dermine</i>		
3 Banking, financial intermediation and corporate finance		35
<i>Martin Hellwig</i>		
1 Introduction		35
2 Inside finance, outside finance and bank finance: theoretical presumptions in historical assessments		38

3	What do intermediaries do? Risk diversification versus agency cost reduction	42
4	Financial intermediation as delegated monitoring	46
5	Financial intermediation as a method of commitment	51
6	Inside finance and the emancipation of firms	57
	Discussion	
	<i>Franklin Allen</i>	64
	<i>Margaret Bray</i>	68
4	How (not) to integrate the European capital markets	73
	<i>Yakov Amihud and Haim Mendelson</i>	
1	Introduction	73
2	Market fragmentation: research findings	75
3	Order types and their effects on market liquidity	79
4	Preservation of priorities	84
5	Evaluation of order-routing linkage	87
6	An alternative approach	90
7	Concluding remarks	96
	Discussion	
	<i>Richard M. Levich</i>	100
	<i>Marco Pagano</i>	108
5	European financial regulation: a framework for policy analysis	112
	<i>Colin Mayer and Damien Neven</i>	
1	Introduction	112
2	Moral hazard and adverse selection with respect to product quality	116
3	Regulatory design	119
4	Statutory versus self-regulation	124
5	Financial regulation in practice	127
6	Conclusions	129
	Appendix	130
	Discussion	
	<i>John Vickers</i>	133
6	Corporate mergers in international economic integration	136
	<i>Richard E. Caves</i>	
1	Complex firms, heterogeneous market opportunities and corporate mergers	137

2	Non-strategic foreign investment	142
3	Empirical patterns: US international mergers, 1978–88	144
4	Strategic mergers: a realm of application?	151
5	Summary and conclusions for integration in Europe	153
	Discussion	
	<i>Günther Franke</i>	160
	<i>Julian R. Franks</i>	166
7	Capital flight and tax competition: are there viable solutions to both problems?	172
	<i>Alberto Giovannini and James R. Hines Jr</i>	
1	Introduction	172
2	Capital income tax revenue: international comparisons and their interpretation	173
3	Capital income taxes in Europe	178
4	Reforming capital income taxes	192
	Discussion	
	<i>Julian S. Alworth</i>	211
	<i>R. Glenn Hubbard</i>	217
8	Reflections on the fiscal implications of a common currency	221
	<i>Willem H. Buiter and Kenneth M. Kletzer</i>	
1	Introduction: sense and nonsense in the Delors Report	221
2	Exchange-rate unification, monetary unification and fiscal coordination	227
3	National solvency without national monetary policy	231
4	National public sector deficits and Community-wide interest rates: pecuniary versus technological externalities	233
5	Non-Walrasian equilibria, pecuniary and technological externalities	238
6	Conclusions	240
	Discussion	
	<i>Roger H. Gordon</i>	244
	<i>Assaf Razin</i>	252
9	Currency competition and the transition to monetary union: does competition between currencies lead to price level and exchange-rate stability?	257
	<i>Michael Woodford</i>	

1	Currency competition in a cash-in-advance framework	259
2	Effects of currency substitution on price level and exchange-rate determinacy	267
3	Currency substitution and the stability of learning dynamics	276
4	Feasibility of fixed exchange rates with currency substitution	281
10	Currency competition and the transition to monetary union: currency competition and the evolution of multi-currency regions	290
	<i>Philippe Weil</i>	
1	A simple model of currency substitution	291
2	Perfect currency substitution	294
3	Imperfect currency substitution	297
4	Essential currencies ($\alpha = 1$)	298
5	Inessential currencies ($\alpha = 0$)	299
6	Concluding remarks	300
	Discussion of chapters 9 and 10	
	<i>John S. Flemming</i>	302
11	Problems of European monetary integration	305
	<i>Rudiger Dornbusch</i>	
1	The EMS as a convergence mechanism: 1978–90	306
2	Inconsistencies	310
3	Moving ahead	316
4	Transitional adjustment: zero margins	318
5	The UK case	323
6	Concluding remarks	324
	Discussion	
	<i>Francesco Giavazzi</i>	328
	<i>Niels Thygesen</i>	333
	<i>Index</i>	341

Figures

	<i>page</i>	120
5.1	The constraints	123
5.2	The effect of lowering α	124
5.3	The effect of raising \bar{V} and π_d	
6.1	Consequences of merger choices by asymmetrically placed rival firms after Nature reveals a new opportunity	141
7.1	The revenue from capital income taxes	174
7.2	Capital income taxes in Europe and the US, 1965–87	175
7.3	Capital gains and corporate income taxes in Europe and the US, 1965–87	176
7.4	The application of residence-based taxation: an example of a chain of international corporate ownership	197
7.5	Calculation of rebates	198
10.1	Perfect substitutes (money essential)	296
10.2	Perfect substitutes (money inessential)	297
10.3	Imperfect substitutes (money essential)	299
10.4	Imperfect substitutes (money inessential)	300
11.1	Disinflation in the EMS and outside, 1977–90	308
11.2	Long-term interest rates in Denmark and Germany, 1980–9	313
11A.1	Long-term yield differentials relative to DM-bonds, 1988–90	330
11A.2	Yield differentials between guilder and DM-bonds, 1984–90	331
11A.3	Yield differential between a DM and a guilder government bond, 1989–90	332

Tables

	<i>page</i>
5.1	Some determinants of the design of financial regulation 125
6.1	International horizontal mergers by year of occurrence and origin of acquiring firm, 1978-88 146
6.2	Distribution by country or region of businesses acquired by US companies and US businesses acquired by foreign companies 147
6A.1	Cross-border purchases of firms in the Common Market in the first three quarters of 1989 164
7.1	The revenue from capital income taxes, 1987 173
7.2	Statutory corporate tax rates, 1989 179
7.3	Depreciation methods currently applied by EC countries 180
7.4	Tax treatment of intercompany dividends 182
7.5	Tax treatment of foreign-source dividends 183
7.6	The integration of personal and corporate taxes in EC countries 188
7.7	Withholding taxes on dividends 190
7.8	Withholding taxes on interest 191
7.9	Significance of foreign multinationals to host governments 204
7.10	Revenue exposures under capital tax reform 206
8.1	Net public debt, 1981-8 229
8.2	General government primary balance, 1981-8 229
8.3	General government financial balance, 1981-8 230
8.4	Average annual percentage growth rate of real GNP/GDP, 1981-8 230
8.5	Seigniorage in the EC countries, 1984-8 231
8B.1	Corporate tax systems in the European Community, 1989 253
8B.2	VAT rates in the European Community, 1989 254
11.1	Inflation rates in the EMS, 1974-90 307
11.2	Increases in unit labour costs, 1988-90 311

11.3	Interest rates and inflation in the EMS, 1989: II	312
11.4	The European problem debtors, 1989	314
11.5	External balances, 1978–90	316
11.6	Real exchange rates and the current account, 1989: II	317
11A.1	Italy: the current account and private capital flows, 1988–90	332

11.3	Interest rates and inflation in the EMS, 1989: II	312
11.4	The European problem debtors, 1989	314
11.5	External balances, 1978–90	316
11.6	Real exchange rates and the current account, 1989: II	317
11A.1	Italy: the current account and private capital flows, 1988–90	332