Preface

The last quarter-century has been a time of upheaval and transformation in national financial markets, which have become more closely linked to one another to form a global market. An important explanation behind this transformation is the evolution of information technology, which has done so much to undermine the efficiency of the various barriers previously in force. But the development was also fomented by the growing internationalization of banks and businesses. In some countries, policy-makers recognized that the price of retaining a sheltered domestic financial sector was on the rise, and hastened to deregulate their credit systems and financial markets. In other countries, regulators remained wary of the developments, long resisted the forces impelling the internationalization, and insisted on keeping exchange and credit controls in place. Thus the 'financial globalization' process has evolved in quite a different way in different countries.

At the beginning of the twenty-first century, we can look back and study the different attitudes toward, and the different approaches to dealing with, drivers and effects of the increasing integration of national financial systems into an increasingly global financial market. The different approaches to the necessary transition have had implications for the way monetary policy is pursued. The aim of this book is to offer insights into the link between money market integration and monetary policy options in a European perspective. How and why did money markets evolve and become part of an international money market? What were the aims and the role of national politicians in the process of money market development? What can we learn from a longitudinal study like this one? What is the role of path dependence? Does market development in individual countries provide insights as to why some countries chose to take the full step of monetary unification while others preferred to wait and see? In other words, was the 'cost', in terms of lost monetary policy autonomy, higher for those countries that did not join the EMU than for those that did? What are the consequences, in terms of monetary policy options, of EU membership in general? These and similar questions about the relation between money market integration and monetary policy options will be answered in this book.

For empirics, the book focuses on 11 small, open European economies. All the economies involved are small enough to be considered 'policy-takers' in a global context. Seven of them are members of the Economic and Monetary

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Union (EMU): Austria, Belgium, Finland, Greece, Ireland, the Netherlands and Portugal. Two of them – Denmark and Sweden – are members of the European Union (EU), but not of the EMU. The last two countries – Norway and Switzerland – stand outside the EU altogether. The task of providing empirical support for the links between the different money markets as well as for the relation between these markets and monetary policy options in a rapidly changing financial landscape has been Herculean. However, the importance of the task calls for an effort. As researchers, it was interesting, if daunting, to discover how much more difficult the data-gathering process has become in a deregulated world, now that the former control authorities no longer require detailed reports about cross-border operations. Nevertheless we think we have ultimately managed to get a consistent set of data that we hope will provide the diverse categories of readers with some useful ideas and insights.

The readers we are addressing here include, first, researchers and students in the field of international economics and finance; secondly, policy-makers who are interested in gaining some insights into the interplay between regulatory action and market outcomes; and thirdly, business executives and bankers concerned with the macroeconomic and financial environment in which they operate, such as the pricing of different forms of uncertainty induced by the behavior of regulators and policy-makers.

We have benefited from comments by researchers from many of the focus countries of our study. We would thus like to thank Bengt Assarsson, Uppsala University/Sveriges Riksbank; Michael Bergman, Lund University; Mats Kinnwall, Stockholm University/Svenska Handelsbanken; Per Heum, SNF, Norway; Clas G. Wihlborg, Copenhagen Business School; Finn Østrup, Copenhagen Business School, Michael Sand, Danmarks Nationalbank and Anders Löflund, Swedish School of Economics, Helsinki, Finland. We would also like to thank all our colleagues at the Institute of Economic Research, Lund University and at the Research Institute of Industrial Economics (IUI), Stockholm for support in various forms.

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Finally, the support of the Swedish Network for European Studies in Economics and Business (SNEE) is gratefully acknowledged. The Network sponsored a workshop on the topic of this book, from which the book has also benefited.

All these people, while extremely important to the book, are free of blame for any errors that may remain, which are ours and ours alone.

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