

# Index

---

- Ackum Agell, S. 107  
Agell, J. 91, 92  
aggregate demand, and unemployment 203  
Akerlof, G.A. 86, 91, 92  
Almeida, M. Jr 175  
Amsden, A.H. 55, 56, 57, 60  
Andersson, L. 101  
Arai, M. 95, 100  
Arestis, P. 47, 49, 161, 162, 197, 198, 203, 205, 206, 210, 214  
Argondoña, A. 123  
Aukrust model 86  
Aukrust, O. 87
- Backus, D. 11, 18  
Baker, D. 203  
Ball, L. 222  
Banco de España 130, 142  
Bank of England 209  
bank finance 39  
banks 51–2  
    crashes 49  
    and the development process 40  
    lending 44, 45, 48–9  
bargaining models 90, 91, 96  
Barro, R. 9–10, 17  
Barros, J.R.M. 175  
Benston, G.J. 49  
Beveridge curve 101  
Bewley, T. 91  
Bibow, J. 207  
Biefang-Frisancho Mariscal, I. 203  
Blanchard, O. 139  
Blanchflower, D.G. 76, 90, 94, 107  
Blinder, A. 210  
Bonelli, R. 172  
borrowing 44–5  
Bosworth, B.P. 93  
Brazil 3, 158–93  
    accumulation strategy 158
- aggregate demand 167  
balance of payments 165  
balance of payments constraint 181, 185  
banks' collapse 174  
capital account, liberalization 159, 165  
capital flight from 169  
capital flows 162, 169  
capital outflow 181  
competition 171  
consumer credit 174  
currency crisis 181–5  
domestic financial system 174–5  
    reform 162  
domestic public debt (DPD) 173–4, 175, 176, 177, 181, 187  
economic growth 163  
exchange rate policy 169  
financial crisis 174–5  
financial resource transfers (FT) 164, 167–8, 169, 186  
fiscal policy, conflict with monetary policy 176–7  
foreign debt 175–6  
foreign direct investment (FDI) 159, 173  
GDP growth rate 158, 172, 185  
IMF agreement 181, 183  
import-substituting industrialization (ISI) 158  
imports 171, 172  
    liberalization 162  
industrial restructuring 171–3  
inflation 158, 165, 167  
interest rate arbitrage 175  
interest rates 160, 167, 169, 174, 175, 177, 185, 187  
local government financial crisis 174  
manufacturing industry 172

- mergers and acquisitions 171
- monetary impact of the foreign sector 164–5
- monetary policy 163
  - conflict with fiscal policy 176–7
- neomonetarist policies 159, 162–7
- productivity gains 160
- PROER (Programme of Incentives to Strengthen and Restructure the Financial System) 174, 175
- PROES (Programme of Incentives to Reduce Local Government Banking Activity) 174
- real 168, 169, 181
  - devaluation 183–4, 187
  - managed fluctuation policy 184–5
- Real Plan 158, 159, 162, 163, 165, 167, 187
- real resource transfers (RT) 163–4, 165, 168
- reserves 177, 181
- speculation 184–5
- trade deficit 159
- trade flows 168
- trade liberalization 165, 167
- unemployment 159, 172
  - and the Uruguay Round 162
- welfare state 184
- Bricmont, J. 27
- Buiter, W. 218
- Bulmer-Thomas, V. 176
- Buti, M. 216
  
- Calmfors, L. 91, 92, 93, 128
- Calonge, S. 151
- Calvo, G. 177
- Caprio, G. 49
- Cardim de Carvalho, F.J. 174, 175
- Carvalho, C.E. 173
- Carvalho, P.G.M. 172
- 'cautious expansionism' 28
- central bank independence 1–2, 3, 4, 5, 14, 15, 18, 19, 20, 30, 31
- central banks
  - 'conservative central banker' 13
  - and inflation 199, 202
- central wage agreements, and wage drift 92–3
- central wage bargaining, in Rehn–Meidner model 77
- Centre for European Reform 222
- CEPAL (UN Economic Commission for Latin America) 176
- Chakravarty, S. 59
- Chang, H.-J. 161
- Cho, Y. Je 41, 55, 56, 58
- Choong-Hwan, R. 59
- Christofides, L.N. 90, 94
- Cole, D. 55, 56, 57
  - competition 40
  - competitive atmosphere 44
  - competitive equilibrium level 91
  - 'conservative central banker' 13
  - 'consistent plan' 25
- Council of the European Union 215
- Coutinho, L. 171, 172, 173
- credibility 2, 31, 161
  - and elections 16–20
  - and European Monetary Union 196
  - and financial markets 29
  - theory of 4–37
- credibility problem 9–15
- 'credible', use of word 10
- credit, and investment growth 42–3
- credit risk 43–4, 48
- credit standard 43, 44, 45, 52
- Creel, J. 208, 222, 223
- Cuadrado, J.R. 132
- currency, revaluations of 74
- Cysne, R.P. 174
  
- Datta-Chaudhuri, M. 52
- Davis, J.S. 104
- De Gregorio, J. 47
- deflation 212
- deindustrialization 162
- Del Rio, C. 132
- Demetriades, P.O. 41
- democracy 29–30
- deregulation 1
- developing countries
  - capital accumulation 50
  - intervention 49–50
- development process
  - and banks 40
  - and financial fragility 38–70
  - and savings 51
- Diaz-Alejandro, C.F. 47
- Diniz, E. 172
- discount functions 24, 26

- discount rate 23, 169  
discretion 5, 6, 13, 21  
discretionary policy 7, 13  
disinflation 10, 12  
domestic public debt 162  
Dornbusch, R. 165  
Driffill, J. 11, 18  
Duisenberg, W.F. 197, 198, 204, 208,  
209, 210, 211, 212, 214, 215
- ECB (European Central Bank) 14, 31,  
32, 196, 197, 198, 202, 219, 220  
defects in monetary policy arrange-  
ments 205–6  
deflationary bias 223  
Governing Council 209  
and inflation 205  
inflation targeting 208–9, 210  
and interest rates 205–6, 207–8, 211  
monetary policy 199, 204–12  
calls to modify 222  
efficacy 209–10  
problems with 206–9  
and recession 210  
transmission mechanism 210  
proposed changes to 223–4  
transparency and accountability 221  
‘two pillar’ monetary strategy 204–5,  
208
- ECOFIN 213, 214, 220  
economic fluctuations 195  
economic growth, and low profit levels  
104  
economic policy, ‘third way’ 71  
economies of scale 51  
*The Economist* 208  
Edgren, G. 87  
Edin, P.-A. 100, 101, 102, 103  
Edquist, C. 102  
Edquist, H. 102, 106  
efficiency wage theory 90–91  
EFO model 86  
EIB (European Investment Bank) 225,  
226  
elections 30–31  
and credibility 16–20  
Elster, J. 24  
employment  
EU 108  
euro area 224–5
- EMU (European Monetary Union) 3,  
108, 194–231  
and credibility 196  
economic policy changes 224–6  
exchange rate changes 210  
inflation targeting 196–7, 204  
institutional changes 220–24  
macropolicies 199–203  
and the market economy 195  
monetary policy 195–6, 204–12  
‘new consensus’ 195  
policies for full employment and low  
inflation 220–26  
*see also* ECB; Stability and Growth  
pact
- EMU model  
Phillips curve in 198  
theoretical underpinnings 195–8
- endogenous growth model 39  
equity 77, 79
- Erixon, L. 72, 78, 83, 84, 85, 93, 99,  
101, 102, 103, 104, 105, 106
- ESCB (European System of Central  
Banks) 199
- Espina, A. 131
- EU (European Union), employment 108
- Euh, Y.-D. 57, 60
- euro 199  
appreciation 208, 211
- euro area  
employment in 224–5  
impact of US recession 207
- European Commission 202, 203, 211,  
214  
MacDougall Report 223
- European Convention 221, 222
- European Employment Pact 203
- European Monetary System 125
- European Monetary Union *see* EMU
- European single currency 3
- Faxén, K.O. 100
- Federal (Reserve) Open Market Com-  
mittee (FOMC) 207
- Feijó, C.A. 172
- Fellner, W. 10
- Ferreiro, J. 123
- Fertig, M. 226
- financial fragility, and the development  
process 38–70

- financial liberalization 38  
 South Korea 2
- financial markets, and credibility 29
- financial resource transfers (FT) 164  
 Brazil 167–8, 169, 186  
*Financial Times* 221
- Fine, B. 159
- firm performance, and wages 94
- firms, intertemporal dependence  
 between 50
- fiscal policy 195  
 and Stability and Growth pact 202–3,  
 212–20
- Fitoussi, J.-P. 208, 222, 223
- Flanagan, R.J. 93, 95
- flexible labour market 203
- Flórez, I. 134
- Forder, J. 14, 15, 210
- ‘foreign savings’ 159, 161
- foreign sector, monetary impact of  
 164–5
- Forslund, A. 91, 94, 107
- France, public deficit 215–16
- frictional unemployment 103
- Friedman, M. 5, 6, 9, 21–22
- Fries, H. 101
- Fry, M.J. 41
- future policy 25
- García Durán, J.A. 123
- García, M.A. 151, 152
- García, M.G.P. 177
- GATT, Uruguay Round 162
- GDP (gross domestic product) 22  
 growth rate 47  
*General Theory* 73, 86, 91
- Giovannini, A. 41
- Glickman, M. 47, 49, 162
- globalization 161
- GNP (gross national product) 39
- Goldsmith, R.W. 39
- Gómez, M.C. 123
- Gonçalves, R. 163, 175
- Goodhart, C.A.E. 49
- Gordon, D. 9–10, 17
- growth 38, 39–40  
 impediments to 51  
 and technical progress 51
- Guidotti, P.E. 47
- Gupta, K.L. 41
- Gurley, J.G. 55
- Hansen, B. 83
- Hansson, P. 102
- Harmonized Index of Consumer Prices  
 (HICP) 204
- Henrekson, M. 104, 106
- Hernández, G. 124
- Hibbs, D.A. Jr 95, 96, 100, 102, 103
- Hohohan, P. 49
- Holmlund, B. 93, 94, 95–6, 103
- IMF agreement, Brazil 181, 183
- incomes policy 74  
 failure 88–90
- ‘inconsistent time preferences’ 24
- INE (Instituto Nacional de Estadística)  
 136
- inflation 1, 2, 6, 9, 16, 22, 199, 225  
 and central banks 199, 202  
 controls 74  
 and ECB 205  
 and monetary policy 4  
 and real wage flexibility 72  
 in the Rehn–Meidner (R–M) model  
 85–8  
 Rehn–Meidner theory 82–96  
 Scandinavian model of 128
- informal credit market 52  
 South Korea 57
- insider–outsider theory 137
- interest rates 40–41, 169  
 and ECB 205–6, 207–8, 211  
 and investment 46–8  
 and liberalization 43, 45  
 as a neomonetarist policy tool 161–2  
 and savings 41–2
- international financial institutions 161
- international labour mobility 107
- international liquidity 162, 167, 169
- internationalization 106–7, 159
- intertemporal dependence, among firms  
 50
- intervention 38, 49–54
- inventories 41
- investment, and interest rates 46–8
- investment decisions 50–51
- investment growth, and credit 42
- irrational behaviour 24
- Issing, O. 197, 198, 204, 205, 209

- Jackman, R. 101  
 Jaramillo, F. 45  
 Jimeno, J.F. 13  
 Johnson, G.E. 93  
 Jonsson, L. 100
- Kane, C. 176  
 Kaufman, G.G. 49  
 Keynes, J.M. 42, 73  
 Keynesian growth theory 99  
 Keynesian policy, definitions 73  
 Keynesianism, shortcomings 73–6  
 Khatkhate, D. 41  
 King, M. 177  
 King, R.G. 40  
 Krueger, A.B. 107  
 Kume, H. 169  
 Kuznets, S. 50  
 Kydland, F. 5–9, 16, 21, 196  
 Kydland and Prescott equilibrium 12
- labour, regional mobility 101  
 labour market 1, 72, 98  
   flexible 203  
 labour market mobility  
   international 107  
   Sweden 100–101  
 labour market policy 78–9  
 Lacerda, A.C. 172  
 Laplane, M.F. 173  
 Latin America 47  
 Lawrence, R.Z. 93  
 Layard, R. 84, 90, 93  
 Lee, S.J. 60  
 Leibenstein, H. 99  
 Levine, R. 40  
 liberalization 1  
   and interest rates 43, 45  
   limitations 39–49  
 Lindbeck, A. 72, 137  
 LO Congress 74  
 Locking, H. 95, 96, 100, 102, 103  
 Lommerud, K.E. 92  
 Lopes, F.L. 165  
 Lucas, R. 5, 6  
 Luintel, K.B. 41  
 Lundberg, E. 83  
 Lundberg, L. 102  
 Luxembourg process 108
- Maastricht Treaty 4, 31, 147, 202, 206  
 MacDonald, I.A. 90  
 MacDougall Report, European Commission 223  
 McKinnon, R.I. 39  
 macroeconomics, ‘new consensus’ of  
   197–8  
 Maddison, A. 104  
 Malan, P. 168  
 Manresa, A. 151  
 marginal employment subsidies 74, 80  
 Marín, J. 124  
 market economy, and European Monetary Union 195  
 Marshall, A. 42  
 Marshallian model of structural change  
   98  
 Martín, C. 151, 152  
 Meidner, R. 71, 74, 75, 77, 79, 84, 89,  
   100  
 Mercosur 172  
 Metcalf, D. 139  
 Mexican crisis 176  
 Michl, T.R. 104  
 Milner, S. 139  
 Mishkin, F.S. 47  
 modern wage theory 90–93  
 Modigliani, F. 41  
 Moene, K.O. 92  
 Moghadam, R. 100  
 Mollo, M. 165  
 monetary impact of the foreign sector  
   164–5  
 monetary policy 1, 17  
   ECB 199, 204–12  
   and European Monetary Union 195–6  
   and inflation 4  
   problems and effects 15  
 monetary rule 9  
 monetary transmission lags 27  
 money supply 7  
*Monthly Bulletin* (ECB) 207, 209, 219  
 Morais, L. 175  
 Morisset, J. 176
- neomonetarism  
   Brazil 159, 160–7  
   implementation of policies 161  
   interest rates as a policy tool 161–2  
   macroeconomic level 160

- microeconomic level 160–61
- 'new consensus' of macroeconomics 197–8
- Nickell, S. 84, 90
- Nilsson, C. 100, 101
- Nogueira Batista, P. Jr 177
- non-accelerating inflation rate of unemployment (NAIRU) 119, 195, 197, 203, 217
- non-accelerating wage rate of unemployment (NAWRU) 224
- Non-Banking Financial Intermediaries (NBFi) 39, 40
- Nordhaus, W. 15, 17, 210
- Nurkse, R. 50
- Nurkse–Rosenstein–Rodan–Scitovsky model 52
- Odysseus problem 24, 26
- OECD 224
- OECD countries
  - comparative wage development studies 93
  - growth rates 53
- Öhman, B. 93
- Oswald, A.J. 90, 94
- Park, Y.C. 55, 56, 57
- pay equalization 100
- Peñalosa, J. 124
- Phillips curve 7, 8, 9, 11, 13, 18, 28
  - in EMU model 198
  - 'short-run Phillips curve' 20
- Pissarides, C. 100
- policy, 'cautious expansionism' 28
- policy failure 9
- policymakers, types of 11, 12, 14, 18, 19
- Ponzi finance 162
- Poret, P. 93
- Posen, A. 27
- 'precommitment' 25
- preferences, change of 24
- Prescott, E. 5–9, 16, 21, 196
- price stability 4, 12, 16, 32, 79
- private return 51
- private sector 6, 8, 9–10, 11, 23, 28
- production 51
- productivity 97
- productivity growth 99
- profit margins 77
- profits
  - and nominal wages 84
  - and wage drift 82–5
- 'prudence' 28
- pseudo-credibility theory 4, 5, 26–32
- public saving, Rehn–Meidner (R–M) model 79
- rational expectations 18, 19
- real resource transfers (RT), Brazil 163–4, 165, 168
- Recio, A. 121, 123, 145
- Rehn, G. 71, 73, 74, 75, 76, 77, 79, 80, 81, 82, 83, 84, 89, 98, 100, 103
- Rehn–Meidner (R–M) model 2–3, 71–2
  - central wage bargaining in 77
  - content 73–82
  - inflation in 85–8
  - labour market policy 78–9, 81
  - marginal employment subsidies 80
  - means and objectives 75
  - and the modern wage theory 90–93
  - public saving 79
  - relative wage-preferences 72
  - restrictive fiscal policy 75–6, 81
  - solidaristic wage policy 76–8, 82, 100, 101
  - uniqueness 80–82
  - validity 106–9
  - wage formation 72
- Rehn–Meidner theory of growth 96–106
  - relevance of 100–106
  - solidaristic wage policy and structural change 96–9
- Rehn–Meidner theory of inflation 82–96
  - evidence of 93–6
- relative wage preferences 91
- reputation 10, 11–12, 17–18, 18–19, 25, 28
  - and unemployment 29
- restrictive fiscal policy 75–6
- revaluations, of currency 74
- Revenga, A. 139
- Roca, J. 121, 123, 145
- Rogoff, K. 12–14, 196
- Romer, D. 91
- Romer, P. 39
- Rosar, O.O. 175
- Rosenstein–Rodan, P.N. 50
- Russia, financial crisis 181

- Rydén, B. 105
- Saad-Filho, A. 165, 176
- Salter, W.E.G. 97
- Sarti, F. 173
- savings  
     and the development process 51  
     and interest rate 41–2  
     mobilization 41
- Sawyer, M. 161, 197, 198, 205, 206, 210
- Say's Law 197, 217
- Scandinavian model of inflation 128
- Schager, N.H. 93, 95
- Schmidt, C.M. 226
- Scitovsky, T. 50
- self-finance 106
- self-financing capacity 84
- Serrano, F. 142
- share prices 48
- Shaw, E. 39
- Sheridan, N. 222
- short-termism 4, 20–26
- Silva, S.S. 158
- Simonsen, M. 165
- Siven, C.-H. 100
- Skedinger, P. 93, 95–6
- Snower, D.J. 137
- social objective function 16
- 'social responsibility' 89–90
- social return 51, 52
- Sokal, A. 27
- Solchaga, C. 121, 125, 126
- solidaristic wage policy 76–8, 100, 101, 108–9  
     and structural change 96–9, 102–3
- Solow, R.M. 51, 91, 97
- South Korea  
     Bank of Korea 55, 60  
     corporate bonds 60  
     debt/equity ratio 57  
     devaluation 57  
     development programme 55–6  
     economic performance 38  
     entrepreneurial capital 58  
     export-led growth policy 52–3  
     exports 53, 57  
     financial liberalization 2  
     financial reform (1965) 55, 56  
     foreign debt 56, 59  
     foreign loans 58
- GNP 59, 60  
     heavy and chemical industries 59  
     import substitution 52  
     informal credit market 57–8  
     interest rate 56  
     nationalization of banks 54  
     overinvestment 58, 60  
     Presidential Emergency Decree (1972) 58  
     private banks 53  
     privatization of commercial banks 60
- Spain 3  
     budget deficit 145, 146  
     collective bargaining 128, 138, 139, 141, 145  
     debt service 147  
     economic crisis 118, 119, 120–21  
     economic policy during the 1980s and 1990s 117–57  
     employment contracts 133–4, 135–6, 139, 142  
     entry into EEC 120, 131  
     expenditure on health and education 149  
     financial sector, liberalization 132  
     fiscal revenues, evolution 147  
     GDP 125, 131, 134, 147  
     In-House Labour Rules 139  
     income distribution 149–51  
     income tax 152  
     incomes policy 118, 119 (1977–1986) 122–3  
     Industry White Paper 131  
     inflation 117, 119, 120, 121, 122, 123, 125, 128, 133, 152  
     labour costs 129  
     labour market reforms 118–19, 132–45, 152–3  
         first labour market reform 133–8  
         second labour market reform 138–44, 144–5  
         third labour market reform 144–5  
     labour market segmentation 141, 142  
     labour turnover 142  
     manufacturing production 119  
     manufacturing sector 121, 127, 128, 132  
     modernization 117  
     monetary policy 119, 123–32, 152  
     National Employment Institute 142

- non-accelerating inflation rate of unemployment (NAIRU) 119
- Partido Popular 117, 131, 133, 144, 151, 152, 153
- permanent employment 144
- private consumption and saving 143–4
- Public Pension Scheme 148
- real interest rates 125
- Reconversion Act 121
- service sector 127, 128, 129, 131, 132
- social pacts 122
- Socialist Party 117, 118, 145
  - general strategy of economic policy 120–32
- Tax Studies Institute 149
- taxation system 151
- temporary employment 135, 136, 137, 142
- trade unions 119, 137, 139, 142
- unemployment 117, 118, 119, 122, 123, 125–6, 132
- unemployment compensation 148–9
- wage growth 120, 126, 129, 138
- wage-setting process 139
- wages 137
- welfare state 117, 145–52
  - financing 151
  - plans for reform 148
- Workers' statute 133
- speculation 162
- Stability and Growth Pact (SGP) 108, 147, 199
  - balanced budget requirement 216–20
  - changes to 220–21, 223
  - core elements 212
  - deflationary bias 213–14
  - and fiscal policy 202–3, 212–20
  - fiscal rules 214–16
  - flaws in management 214
  - and structural deficits 215
- Stiglitz, J. 28
- Strotz, R.H. 24
- structural change 98
- Studart, R. 162, 174, 175
- Suen, A. 90
- Summers, L.H. 91, 103
- sunk costs 46, 47, 48
- supply shocks 13
- Suzigan, W. 158
- Svensson, L.E.O. 222
- Sweden 2–3, 71–116
  - Beveridge curve 101
  - devaluation policies 105
  - exports 104
  - firm performance and wages 94
  - inflation 73
  - labour market mobility 100–101
  - labour market policy programmes 107
  - pay equalization 100
  - production 104
  - productivity growth 106
  - research and development (R&D) 102
  - Social Democrats 107–8
  - solidaristic wage policy 103–4
  - structural change 101–2
  - transformation pressure 105
  - unemployment 107
  - wage differences 94–5
  - wage drift 83, 93
  - wage drift and increase studies 93
  - wages 72
    - see also* Rehn–Meidner (R–M) model
- Swedish Productivity Commission 105
- switching cost 46–7
- technical progress, and growth 51
- temptation 10, 20
- theory of credibility 4–37
- theory of transformation pressure 99
- 'third way', in economic policy 71
- time-consistency problem 4, 5–9, 31
- Tobin, J. 88
- Topel, R. 100, 101, 102, 103
- trade union models 91
- trade unions 72, 73, 74, 89, 203
  - in Rehn–Meidner model 76, 77
  - Spain 119
- Trade Unions and Full Employment* 74
- transformation pressure 73, 99, 104–5
- Treasury 218, 222
- uncertainty 42
- unemployment
  - and aggregate demand 203
  - Brazil 159, 172
  - causes 1, 199
  - frictional 103
  - 'natural' rate 5, 6, 22
  - regional levels 225–6



- and reputation 29
- Spain 117, 118, 119, 122, 123, 125–6, 132
- Sweden 107
- theory of frictional unemployment 103
- United States
  - Federal Reserve System, interest rates 211
  - growth rate 199
  - recession, impact on euro area 207
  - wages 102
- Villela, A.V. 158
- wage drift 73–4, 80, 95–6
  - and central wage agreements 92–3
  - and central wage increases 95
  - and profits 82–5
- wage gaps 92, 94
- wage restraint 08, 74
- wage-earner funds 74
- wages
  - and firm performance 94
  - and market forces 86
  - solidaristic wage policy 76–8
- wage–employment mechanisms 92
- wage–wage–price spirals 86, 88
- Wohlin, L. 105
- world trade 53
- X-inefficiency 72, 84–5, 90, 91, 94, 99
- Yellen, J.L. 86, 91, 92
- Zetterberg, J. 94, 101, 103