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## Comment Gianmarco I. P. Ottaviano

A decade after the introduction of the euro, studies of the effects of the euro on real and financial variables are flourishing. A couple of years ago, the state of the debate was summarized by *The Economist* (2006) as follows: "In the continuing controversies about Europe's bold experiment in monetary union, there has at least been some agreement about where the costs and benefits lie. The costs are macroeconomic, caused by forgoing the right to set interest rates to suit the specific economic conditions of a member state. The benefits are microeconomic, consisting of potential gains in trade and growth as the costs of changing currencies and exchange-rate uncertainty are removed."

Against this background, Bugamelli, Schivardi, and Zizza consider a specific aspect of the cost-benefit trade-off by looking at the "macro cost" of renouncing to competitive devaluations and the "micro benefit" due to productivity gains through firm restructuring once the competitive boost of devaluations within the euro area has been removed.

Even though the recent financial turmoil has someway stressed also the existence of potentially relevant macroeconomic benefits, the authors' effort remains worthwhile, given that the quantification of the microeconomic effects of the euro is still at an infant stage, mainly due to the lack of quality data at the firm level for several European countries.

In their effort, the key challenge the authors face is how to disentangle confounding factors, as there are several measurable microeconomic effects that the euro may have had. In particular, the literature has highlighted three main categories of microeconomic effects stemming from the reduction of several types of transaction costs. First, there are the effects on trade flows. Through the export participation effect, some firms that were formerly unable to export become active in international markets. Through the market coverage effect, exporters start to serve a larger number of foreign countries. Through the product variety effects, exporters start to sell a larger number of products in foreign markets. Through the export intensity effect, exporters increase the sales of each product in each foreign market in which it is sold. Second, there are the effects on prices. Through the (pure) transaction cost effect, a fall in the costs associated with exporting activities directly translates in lower export prices. Through the procompetitive effect, increased arbitrage opportunities for customers, which are due to lower transaction costs, force firms to reduce their markups and limit their ability to extract value by quoting different prices in different countries (the so-called "pricing to market"). This maps into lower export price levels and lower price dispersion across national markets. Third and last, there are the

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effects on firm performance. Through intraindustry reallocations, tougher competition forces less-efficient firms to exit (selection). Through intrafirm reallocations, tougher competition forces surviving firms to restructure (restructuring). Hence, even when observed in the data, restructuring, which is the focus of the authors' investigation, may have nothing to do with having foregone the right to devaluate.

The challenge becomes even tougher when one considers that several of the foregoing effects are not specific to the introduction of the common currency but may be the result of other parallel events, such as the broader process of European integration or globalization at large. Hence, restructuring may not only have little to do with the foregone possibility of competitive devaluations but also with the euro altogether.

Unfortunately, all these confounding factors are not discussed in the chapter, which to many readers may cast a methodological shadow on the authors' identification strategy of the restructuring effects of foregone competitive devaluations. Such strategy is based on treatment-versus-control comparisons aimed at identifying the differential impact of the euro between otherwise identical groups. These groups are defined along three dimensions: EU countries inside or outside the euro area, sectors in which devaluations were more or less important for competitiveness before the euro, and low- or high-tech firms. The author's basic idea is: "If the euro has had any effect in terms of restructuring, we expect it to be strongest in the country-sectors that relied more intensively on competitive devaluations"—that is, in countries that were formerly keener to devaluate and in sectors where competition is mainly in terms of prices, as in these sectors, devaluations were more likely to affect competitiveness.

For many readers, it may be hard to see how this treatment-versus-control strategy allows the authors to isolate the specific effects of the euro in terms of foregone devaluations from its effects in terms of lower transaction costs, and to some extent, from the effects of other parallel events. For instance, aren't the country-sector-firms in which the authors look for the effects of foregone devaluations the same in which one would expect the impact of lower transaction costs to be stronger? Aren't such country-sector-firms precisely those in which one would expect growing competition from emerging countries from outside the European Union? Isn't it possible that the "clear break around the 1992 devaluation" has something to do with the single market rather than with the devaluation per se?

## References

*Economist.* 2006. The euro and trade. June 22.