



## SIGNALLING IMBALANCES IN THE EMU

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### ABSTRACT

*Markets show well known difficulties in delivering the right signals of looming imbalances, may underreact or overreact to them and cannot properly correct them. Pure monetary unions add no significant system of signaling and re-adjustment and can even cause further imbalances. The more so if the asymmetries producing such imbalances have a structural nature, as in this case some markets, such as labour markets, may not work in an appropriate way. In this situation moral hazard and adverse selection can easily arise, making correction of imbalances more difficult. The system should then be helped to deliver proper signals and to correct them. The OCA theory must be made to work and appropriate non-market institutions, mainly at the union level, should be created. In particular, a common financial regulation, fiscal, industrial and labour policies should be introduced, while devising consistent institutions at the country level.*

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