

**Response to Ritschl and Wolf's *Endogeneity of Currency Areas and Trade Blocs: Evidence from the Inter-War Period***  
**Andrew K. Rose, UC Berkeley CEPR and NBER**

Ritschl and Wolf (2003) rely on an unusual variable for currency unions in their empirical analysis. In particular, their data set indicates that all the country-pairs listed below were considered to be in currency unions in the interwar period. Thus, according to Ritschl and Wolf, Austria and Bulgaria were in a currency union. Indeed, Austria was also in currency union with Czechoslovakia, Denmark, Finland, Germany, Greece, Hungary, Italy, the Netherlands, Norway, Roman, Spain, Sweden, Turkey, and Yugoslavia. And don't forget the monetary union between New Zealand and Germany! There are 267 pairings listed in all by them.

This seems odd; I've never heard anyone argue that these currency unions existed. Ritschl and Wolf probably mean "fixed exchange rates" instead of "currency unions." But the two are radically different! A currency union is simply not the same as a fix; ask any Dane! Hong Kong is fixed to the dollar, but they're certainly not in a currency union. As I concluded in my original *Economic Policy* paper,

"...Two countries which use the same currency trade much more than comparable countries with their own currencies; my point estimate is over three times as much. The impact of a common currency is an order of magnitude larger than the effect of reducing moderate exchange rate volatility to zero but retaining separate currencies..."

Indeed the whole point of the original paper was to say that my results (of the currency union effect on trade) were consistent with those of the literature (which had, to that point, focused on countries with different currencies), since previously a currency union had been conceptually equated to a fix with zero exchange rate volatility. In practice though, a currency union turns out to be quite different. (Why remains unclear ... but that's a different issue).

Just for the record, a standard definition of a currency union is in my *European Economic Review* paper with Glick:

“... By “currency union” we mean essentially that money was interchangeable between the two countries at a 1:1 par for an extended period of time, so that there was no need to convert prices when trading between a pair of countries.”

So I don't think the evidence of Ritschl and Wolf bears strongly on the issue of currency unions and trade one way or another. It seems to be about exchange rate fixes and trade, not currency union and trade.

### **Country Pairs For which CU\_IN=1 meaning, according to Ritschl-Wolf (2003) "Both Countries in Same Currency Arrangement"**

#### **Country Mnemonic Guide**

USSR	Soviet Union
CA	Canada
US	United States
ARG	Argentina
JA	Japan
AU	Austria
BE	Belgium
CZ	Czechoslovakia
FR	France
GE	Germany
IT	Italy
NE	Netherlands
SW	Sweden
SWI	Switzerland
BU	Bulgaria
DE	Denmark
FI	Finland
GR	Greece
H	Hungary
NO	Norway
PO	Poland
POR	Portugal
RO	Romania
SP	Spain
TU	Turkey
YU	Yugoslavia
IR	Ireland
UK	United Kingdom
AUS	Australia
ZE	New Zealand

**Example:**

ARG\_AU Argentina/Austria

**Country Pairs For which CU\_IN=1 meaning, according to Ritschl-Wolf (2003) "Both Countries in Same Currency Arrangement"**

au\_bu  
au\_cz  
au\_de  
au\_fi  
au\_ge  
au\_gr  
au\_h  
au\_it  
au\_ne  
au\_no  
au\_ro  
au\_sp  
au\_sw  
au\_tu  
au\_yu  
aus\_de  
aus\_fi  
aus\_ir  
aus\_no  
aus\_por  
aus\_sw  
aus\_uk  
aus\_ze  
be\_fr  
be\_ne  
be\_po  
be\_swi  
bu\_au  
bu\_cz  
bu\_ge  
bu\_gr  
bu\_h  
bu\_ro  
cz\_au  
cz\_bu  
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cz\_gr  
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fi\_ze  
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ir\_no  
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Taken from: [http://www.wiwi.hu-berlin.de/wg/ritschl/ritschl\\_wolf\\_exceldata.zip](http://www.wiwi.hu-berlin.de/wg/ritschl/ritschl_wolf_exceldata.zip)  
In particular, the two files of relevance are "series\_names.xls" and especially  
"ritsch\_wolf\_data1.xls" (CU\_IN is column "W")