

AN INCOMPLETE OPTIMAL CURRENCY AREA: THE ISSUE OF MIGRATION IN THE EUROZONE

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[dx.doi.org/10.18374/RBR-14-2.5](https://doi.org/10.18374/RBR-14-2.5)

ABSTRACT

The main objective of this study is to test if the Eurozone a decade after its launch can be considered an optimal currency area (OCA) as defined by Mundell (1961). In an OCA, asymmetric shocks - as the ones experienced by the Eurozone following the recent financial crisis - may be dampened by two instruments: fiscal transfers from one country to another, or migration. As fiscal transfers in the Eurozone are low, we study the economic significance of migration flows as automatic stabilizers of the currency area. We assume that there is a strong relationship between unemployment and relative wealth on migration rates. We use panel regressions to test these relationships and find out that migration between member states is very low after the Euro's first decade. Combined with the lack of significant fiscal transfers we conclude that the currency union is still not an OCA.

Keywords: *Eurozone, labor mobility, Optimal Currency Area*