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## Interview with Robert Mundell: The euro has been an unqualified success

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## Interview with Robert Mundell:

## The euro has been an unqualified success

*Your famous paper on optimum currency areas (OCA) was five years old when it was published in 1961 in the American Economic Review. Now this article has almost a fifty-year history, but OCA theory is still evolving, inspired by your original ideas. How do you assess the evolution of OCA theory? Does each period have its own OCA criteria?*

**Mundell:** Frankly, I don't think much progress has been made. I think it's because of the overemphasis on money as an asset to the neglect of money as a unit of account, or as Aristotle would say, a measure. OCA theory is only useful as a guide to exchange rate policy if it incorporates money as a unit of account (as the last half of my article did) and also incorporates political considerations.

*Already back in the early 1970s, you served as a leading member of the EEC's Study Group on EMU. How much of today's EMU was already anticipated at that time?*

**Mundell:** There was more attention paid then to a monetary union as a multiple-currency union, achieved through the addition of a common parallel currency, than to a single-currency union in which a common currency replaces the national currencies.

*Paternity of the euro is often ascribed to you, particularly after you received the prize in economic sciences in memory of Alfred Nobel in 1999, while you have been so modest as to call yourself rather as "one of the several godfathers" to the euro. Are you as godfather happy with your child today at the age of ten years? What has surprised, impressed and depressed you the most when you look back at the first decade of the euro?*

**Mundell:** Godfather was not an appropriate word, at least as far as my input was concerned, since a Godfather is someone who concerns himself with the welfare of a child after he has been born. In this sense the Godfathers would be people like Duisenberg and Trichet.

If I have a claim to a role in the founding of the euro it would be because of (1) the theory of Optimum Currency Areas, (2) my 1969 paper, "The Case for a European Currency," which was circulated to the European Monetary Commission in December 1969, (3) my 1970 paper, "A Plan for a European Currency, coining the term EUROPA as the name for the European currency, (4) my work with the European Monetary Commission in June 1970 exploring alternative routes to an optimum currency area, and my contributions to the EEC Study Group in the early 1970s.

I think the euro has been an unqualified success and Europe is better off and more powerful because of it.

*Of course, an economist must stand ready to propose better policies and better institutions. What measures would you propose to make the euro work better?*

**Mundell:** I would support institutional developments which would make Europe a less immature capital market. There should be a European bond and a European Treasury Bill.

*Looking into the future of Europe, where will EMU and the euro be ten years from now when we celebrate the euro at 20?*

**Mundell:** I believe that ten years from now there is a good chance that most members of the EU, including the U.K. will be inside the euro zone, and that the euro area will be larger than the dollar area. But in twenty years, I believe the dollar will be back in first place.

*Finally, let's look to the future of the euro as an international currency. How do you see its future role as compared to other currencies? Will monetary integration continue on a global scale?*

**Mundell:** The euro is now one of the two top currencies in the world and that will continue to be the case for the next few decades. In the longer term, however, it is likely that China and India will break into the top group as a result of the global spread of the productivity revolution. Within thirty years I would expect there to be a global currency that is used for international transactions.

**Robert A. Mundell** (born in Canada in 1932) has worked in academia (e.g. Chicago, Stanford, Geneva, Bologna, Columbia) and as an adviser to international institutions (e.g. European Commission, IMF, World Bank, UN), central banks and governments.



He prepared one of the first plans for a common currency in Europe and is often called the father of the theory of optimum currency areas (OCA). His writings on a broad range of subjects include over a hundred articles in scientific journals. In 1999, he received the Nobel Memorial Prize in Economics.

Interview by Lars Jonung (DG ECFIN).