Introduction[1]

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Biographical notes: Thierry Warin is an Associate Professor of Economics and Director of the International Studies Program at Middlebury College (USA). He authored over 25 academic publications, and seven books. Prior to coming to Middlebury College, he has held positions in several academic institutions (Essec Business School, HEC Paris, HEC Montreal, Ecole Polytechnique de Montreal). His research is mainly on international economics topics, with a particular interest on the European economic integration. An alumnus of the Minda de Gunzburg Centre for European Studies at Harvard University, he completed his PhD in Economics at Essec Business School (France).

A dream came true. Ten years ago, Robert Schuman's vision of a peaceful, integrated Europe, recognising its common history, was finalised with the implementation of the euro. This achievement has lived for ten years now, and is assuredly a success. But the euro area members continue to face the challenges of adjusting to the single monetary policy, abiding by the Stability and Growth Pact on the fiscal side, and implementing needed structural reforms. Europe is closer than ever, but is still a work in progress. Europe is not yet fully integrated. Europe is plural. One immediately thinks of its two main postwar occurrences: the European Union (EU), and the Economic and Monetary Union (EMU). But there is also the European Free Trade Association (EFTA), the European Economic Area (EEA), and the Europe of Schengen. When one considers this plurality, then Europe's motto seems totally obvious: 'United in diversity'.

This plurality is at the root of Europe's successes but also its challenges. In the past 60 years, Europe has gone through an unbelievable number of steps to rebuild itself and integrate its economies to become both a new and peaceful Europe. From Robert Schuman's declaration on May 9, 1950, to the rejection of the European Constitution on June 12, 2008, Europe is definitely not running a sprint, but a hurdle race. It is surely a slower, and more complicated process than was anticipated, but Europe continues to progress in its integration. From an economically motivated integration, Europe is now closer to the supranational entity once dreamt of by Robert Schuman and presented to the world in the 'clock lounge' of the Foreign Affairs Ministry Hausmanian building.

With 23 official languages – including a regional language: Gaelic–, 27 countries, 500 million inhabitants, the EU is the world trading leader. Considered as a single economy, the EU generated an estimated nominal Gross Domestic Product (GDP) of US$ 16.83 trillion in 2007, amounting to 31% of the world's total economic output.

It is also the largest exporter of goods, the second largest importer behind the USA and the biggest trading partner to several large countries such as India, and China. With 281 medals during the 2008 Summer Olympic Games, the EU is ranked first, before the USA (second with 110 medals), and China (third with 100 medals). Roughly 170 of the top 500 largest corporations measured by revenue (Fortune Global 500) have their headquarters in the EU. And Europe is definitely diverse, which is a challenge in many regards; there is a great deal of variance for annual per capita income (from US$ 7,000 to US$ 69,000) within individual EU states.

The EU was officially established by the Treaty of Maastricht in 1993, on the foundations laid down by the European Economic Community (EEC) in the Treaty of Rome in 1957. Essentially, the EU has two main characteristics: one economic, and one political. Economically, the EU is a free-trade area (free movements of goods, services, capital, and persons) and a customs union. Politically, the EU is the layer governed by specifically-designed institutions to manage this free-trade area in its several constituencies: the Council of the European Union, the European Commission, the European Parliament, and the European Court of Justice. The EU is thus a hybrid of inter-governmentalism and supra-nationalism.

On top of the free movement of goods, services, capital and persons, 16 EU Member States have introduced the euro as their currency: Belgium, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, Slovenia, Cyprus, Malta, Finland, and Slovakia. Upon accession to the EU, a new Member State commits itself to introducing the euro when all the necessary criteria have been met. By meeting these criteria, a Member State demonstrates a high degree of sustainable economic convergence with the euro-area economy before introducing the euro. The first countries to enter in January 4, 1999 were Belgium, Germany, Ireland, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, and Finland. Then came Greece (January 1, 2001), Slovenia (January 1, 2007), Cyprus (January 1, 2008), Malta (January 1, 2008), and on January 1, 2009: Slovakia.

The path to the membership of the euro area, in other words the path to becoming an Optimum Currency Area (OCA) (Mundell, 1961), or the impact of sharing a single currency as explained by the theory of an endogenous OCA (Frankel and Rose, 1998), strengthens the degree of economic interdependence between Member States. Euro-area Member States share the common currency and lose their autonomous monetary policy to a euro-wide monetary policy conducted by the European Central Bank (ECB). This increasing economic integration encourages closer coordination of economic policies.

In view of this interdependence, euro-area members face specific, common economic challenges. For this reason, since 1999, the finance ministers of the euro-area Member States have met informally as the 'Euro Group' to discuss issues connected to their shared responsibilities for the single currency. The Commissioner for Economic and Monetary Affairs and the President of the ECB also participate in these meetings. Lately, in the wake of the 2008 financial crisis, the UK has joined the Euro Group for a special meeting on dealing with the issues at stake.

The past ten years have been an incredible success for the euro. Relying on the foundations of the ECU, the euro is managed by a brand new central bank. The big and only challenge for the ECB in 1999 was to create and convince financial markets of its high reputation. In other words, the ECB had to be trustworthy. This challenge has been tackled with success. Every single country of the euro has benefited from this success.

The interest on treasury bonds declined, and the spreads were never this low compared to Germany. In other words, countries with a higher risk premium before the euro were able to finance their deficits and then refinance their debts at a lower price – at almost the same price as Germany. Not only does this help in lowering their debts, but it improves the quality of the debt.

In 2009, amidst the worst financial crisis since 1929, the ECB no longer has to worry about its credibility. And this is particularly true in an open world where the Fed injects liquidity almost for free, and where inflation does not seem to be the primary issue. Indeed, in a time of crisis, expectations are different. The question is no longer to find sound and inexpensive financing, it is to find financing. If the ECB does not change its priorities, the financial markets will come to believe that the only response to the crisis will come from fiscal and structural policy. In this context, one can expect that countries with higher deficits in normal times will now need to run even higher deficits. The question is to find liquidity: in a liquidity scarce world, these countries will pay more. Therefore, we can expect to see financial markets placing a higher risk premium on these countries for two reasons:

1 they may be short of liquidity as they are facing a higher risk of defaulting
2 since the SGP is no longer an effective control over public deficits (see Figure 18), nobody knows how big deficits will be, meaning that there is no longer any reason to not put a higher risk premium on some countries (Greece, Spain, Italy, etc.).

Most of the next ten years will be constituted by challenges. Simulations for growth in 2009 and 2010 rely on various assumptions. A lot of the answers depends upon which scenario will be chosen to rely upon what combination of monetary, fiscal, and structural policies will be used.

Broadly speaking, if monetary policy cannot be used as an answer – even partial – to guide Europe through the crisis, governments have no choice but to use their fiscal policies. This will have a snowball effect: not only will treasury bond interest rise due to the liquidity scarcity, but it will also rise because the fiscal discipline created by the SGP and the indirect policy-mix benefit associated with the SGP will no longer exist. Financial markets will demand a higher risk premium. Governments can also fall back on structural policies, but in tough times where unemployment is on the rise accompanied with social tensions, it is unlikely that governments will implement policies positively impacting Europe's competitiveness (lowering labour costs, etc.). Can this threaten the euro? Is it plausible that countries leave the euro? The answer is no. The euro still offers a protection in the form of a lower risk premium on debt. If countries were to leave, they would face a rise in their risk premium and would have an even tougher time at financing their deficits. It is in fact more plausible that some countries will join the euro, than the converse. Denmark? The UK? This is now possible. A likely scenario is a change in the ECB's monetary policy, or the emergence of a real coordination mechanism among fiscal policies instead of the 'cooperation' mechanism embodied in the SGP, and maybe even a real economic government for the euro area based on the foundations laid down by the Euro Group. The 2008 financial crisis may help Europe become singular.

In this special issue, outstanding contributions on the past ten years and the future of the EMU have been gathered. Based and motivated by the first theory of economic integration – the OCA by Mundell, Kenen and McKinnon – this special issue is cross-disciplinary in essence.

First, Peter B. Kenen, Walker Professor of Economics and International Finance, Emeritus, Princeton University (USA), reflects on 'Ten years of European Monetary Union: What's gone right and What's gone wrong'. Daniel Barbezat, Associate Professor of Economics, Amherst College (USA), presents a thorough review of 'Looking backwards and living forwards: the EMU and the history of monetary unions in Western Europe' followed by Kirsten Wandschneider, Assistant Professor of Economics, Occidental College (USA), and Associate Professor of Economics, University of Warwick (UK), Nikolaus Wolf's paper titled 'Shooting on a moving target: explaining European bank rates during the interwar period', which shows that countries' interwar policy choices offer lessons for countries remaining in or choosing to join the European Monetary Union today.

In 'The 2008 financial crisis and Stability and Growth Pact II? Let us move on to SGP III: "*À la carte*"', the issues encountered by the Stability and Growth Pact in Europe, its reform in 2005, and its future in light of the 2008 financial crisis are presented. This paper is followed by Andrew Martin's paper, Minda de Gunzburg Center for European Studies, Harvard University (USA), which presents a critical perspective on the lack of policy-mix in the eurozone: 'EMU's flawed economic constitution: macroeconomic policy disabled'. André Fourçans, Distinguished Professor of Economics and Finance, ESSEC Business School (France) and Thierry Warin, Associate Professor of Economics, Middlebury College (USA), Associate Fellow at Cirano (Canada) then reflect on tax competition vs. tax harmonisation in an paper titled 'Tax competition and information sharing in Europe: a signalling game', and find that the SGP and the Euro Group may have some positive externalities on preventing a race to the bottom in terms of public goods provisions.

Then demographics and migration flows are considered in two papers. The first one by Heikki Oksanen, Directorate General for Economic and Financial Affairs, European Commission (Belgium) highlights the pressure on public finances coming from the European demographic trends in an paper titled 'Setting targets for government budgets under the EU Stability and Growth Pact and ageing populations'. The second paper is from Martin A. Schain, Professor of Politics, New York University (USA) and is titled 'The shaping of European immigration policy during the past decade'. The European migration flows are directly impacted by the European immigration policy. These two papers will bridge demographics and immigration with one of the features of an OCA: labour mobility.

George Ross, Hillquit Professor, Brandeis University (USA), *ad personam* Chaire Jean Monnet, Université de Montréal (Canada), then presents a case study on social changes and perceptions since the inception of the euro from citizens coming from a leading country in the EMU: 'Monetary integration and the French model: a case study in the eurozone'.

Eventually, Amy Verdun, Professor and Jean Monnet Chair, Department of Political Science, University of Victoria (Canada), concludes this special issue with an paper titled 'Ten years EMU: an assessment of ten critical claims' in which Amy looks at the past ten years through ten claims coming from the scholarly literature.

Before concluding, I would like to express my gratitude to Demetri Kantarelis without whom this special issue would not exist. I would like to deeply thank the participants of the conference on the tenth anniversary of the euro organised at

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Note

[1]See Warin (2009).