



## Euro Symposium

# I Was a Euro Enthusiast

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### ABSTRACT

Jonung and Drea (2010) err in concluding that there was no American economist who made a strong case for the euro prior to its birth. I in fact consistently espoused a viewpoint opposite to the three components of the taxonomy by Rudiger Dornbusch that inspired the title of their paper, arguing from the outset of the debate that the new currency would be created on schedule; that it was a good idea; and that it would be wholly successful. I was a bit premature in suggesting as well that the exchange rate of the new euro would be quite strong from the outset, but that was probably due to its being solely a virtual asset in the initial period; it has of course appreciated considerably ever since. My view that the new currency would “eventually” or “ultimately” move up alongside the dollar as an international currency “over a longish transition period” has also arguably proven to be premature, though the euro’s global market share has risen about five percentage points since its inception. I believe a clear trend in that direction is underway, due to the flow diversification accurately predicted by Peter Kenen rather than my expectation of a large portfolio diversification.

My analysis differed from that of virtually all my colleagues because it was based on political economy rather than technical considerations such as the theory of optimum currency areas. Having worked on the economics of European unification throughout my career, dating back almost to the Treaty of Rome itself, I have been constantly impressed—indeed, often amazed—by how the individual members of the Union invariably overcame their substantial national differences

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to complete the successive projects that maintained (at least until quite recently) the forward momentum of their integration process. Economic and Monetary Union was probably the most far-reaching of all these efforts and undoubtedly represented the greatest intrusion into national sovereignty, so it was no sure thing. I nevertheless concluded from the outset that its failure would represent such a (perhaps fatal) setback to the entire process that a negative outcome would prove to be unacceptable to the leaders of all member states. I also concluded that the implications of the optimum currency area debate for the economic impact of EMU were ambiguous, and that the outcome was close enough even on that criterion to permit a basically political decision to prevail and, much more importantly, to have a very good chance to succeed.

In an effort to mobilize American (and non-American) economists to play a more constructive role in the ongoing euro project than most of them did prior to its creation, as described by Jonung and Drea, our Peterson Institute for International Economics has conducted two systematic appraisals of the record of the European currency to date: *The Euro at Five* (Posen 2005) and *The Euro at Ten* (Pisani-Ferry and Posen 2009). Both concluded that the euro has been a huge success in term of effectively performing all the functions of a currency and achieving price stability for the euro area. More countries now want to join the area than did before the recent global financial crisis.

On the other hand, many of the key economic reforms that were expected to follow the creation of the euro have not occurred; the forward momentum of meaningful integration has stalled. Partly as a result, European economic performance has been disappointing and the currency has not yet come to rival the dollar on the global level. Moreover, the member states have been unable to come together on fiscal policy or most elements of structural reform and still must get their institutional act together. Hence, Euroland still has a very full agenda, and its Economic and Monetary Union remains very much a work in progress.

## References

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## About the Author



**C. Fred Bergsten** has been Director of the Peterson Institute for International Economics in Washington, D.C. since its creation in 1981. He served as Assistant Secretary for International Affairs of the U.S. Treasury Department from 1977 to 1981 and, concurrently, functioned as Under Secretary for Monetary Affairs of the Treasury from 1980 to 1981. He was the chairman of the Eminent Persons Group of Asian Pacific Economic Cooperation (APEC) from 1993 to 1995, and a member of the International Financial Institution Advisory Commission to the U.S. Congress in 2000. He has authored, coauthored, or edited 40 books on international economic issues, most recently *The Long-Term International Economic Position of the United States* (2009).

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