Preface

In 1936, John Maynard Keynes taught us macroeconomics in the context of a sovereign nation-state and the Keynesian Revolution went on to overwhelm the critics. In the post-WWII decades, the concept of supranational macroeconomics became the core theme of the continental economic integration of Europe. The progression of the historic movement toward one European family is an accomplishment of immense magnitude. Students of economics are now aggressively challenged to study the new paradigm of macroeconomics. One common economic unit with its well-specified micro- and macroeconomic parameters has been mapped onto one common geographic unit, the continent of Europe, a group of sovereign European nation-states voluntarily surrendering their erstwhile sovereignty. The official inauguration of one common money, the euro, managed by one common supranational central bank, the European Central Bank (ECB), on January 1, 1999, has been an epochal event in the eventful history of the European Union (EU) from 1958 through the present.

As a student of economics, especially macroeconomics, I made efforts to appreciate the new challenge. In a paper, in the American Economic Review – Papers and Proceedings (1992), I argued that the traditional concept of a sovereign nation-state economy warrants re-examination, and that the concept of supranational macroeconomics merits a welcome review. In the same year, at an international conference at Chulalongkorn University, Thailand, my presentation on the EU received highly critical responses. I may have moved too fast, too soon, but since then, events have progressed positively for the EU. In 1995, I authored another paper pointing out the limitations of sovereign nation-state-based macroeconomics. As of 1999, with the euro and the ECB firmly established, the debate became: one money to one Europe. Immediately, I ventured to join in the debate. That same year, I was received as a Visiting Scholar at Der Deutsche Bundesbank at Frankfurt, Germany. My intensive interaction with economists and policy makers at the Bundesbank gave me a fuller understanding of the economic impact of the euro, adopted by 12 members of the EU (The United Kingdom, Sweden, and Denmark, also members of the EU-15, declined to join the Eurosystem and they continue to remain outside of the Eurozone at the present time). During this visit, I also had an occasion to have a personal conference with Dr. Otmar Issing, Chief

Economist and a Member of the Executive Board of the ECB. Indeed, I had the privilege to spend some time with several economists at the ECB. The following year, I was invited to serve as a Visiting Scholar with three European national central banks, De Netherlandsche Bank in Amsterdam, Banque de France in Paris, and Der Deutsche Bundesbank in Frankfurt. During my stay in Frankfurt, I had a second occasion to have another personal conference with Dr. Otmar Issing at the ECB, who forcefully articulated his thesis, one money to one Europe.

Later in 2000, I took the case for the Europeanization of Europe to Asia. I served as a Visiting Scholar with Japan's Ministry of Finance in Tokyo. During this visit, I came to be informed of the frequent subcabinet level meetings of experts from Korea, China, and Japan toward developing a plan for monetary and fiscal policy cooperation. I wondered if it was an embryonic effort toward the Asianization of Asia. During my six-week tenure as a Visiting Scholar, I had the occasion to confer with economists at several other Ministries of the Government of Japan. I also visited several universities and research centers inclusive of Hitotsubashi University, Chuo University, Bank of Japan, Japan Bank for International Development, and the International Center for the Study of East Asian Development (ICSEAD) in Kokura.

Presentations and follow-up exchanges with ranking economists and officials at the Reserve Bank of New Zealand, Wellington, New Zealand in 2004 and earlier at the Reserve Bank of Australia, Canberra, Australia enriched my understanding of the potential of Asian regional economic integration.

Since then, my research in this area has taken me to give invited presentations at a large number of universities and research institutions in China, Korea, Taiwan, the Philippines, Indonesia, Singapore, Malaysia, Thailand, Viet Nam, Nepal, India, Australia, and New Zealand. Note that I also gave invited seminars at several universities in the USA and Europe. My presentations on the EU at the Federal Reserve Bank of New York in 2000, and earlier at the Federal Reserve Bank of San Francisco and the Federal Reserve Bank of Atlanta drew critical comments as many shared their reservations about the euro and the EU. My presentation in 2002 at the special workshop sponsored by the United Nations International Training and Research (UNITAR) at the United Nations Headquarter in New York City, however, drew a great deal of appreciation.

European Union and the Euro Revolution is the output of my research since 1999. I must acknowledge my indebtedness to all my fellow economists at various forums in so many countries across the Atlantic and the Pacific, whose comments and constructive criticisms contributed to my learning. The subject is truly difficult and literature on the subject is quite limited. This book has eight chapters and in what follows a brief description of each chapter is presented:

Chapter 1 introduces the 25 member countries of the EU as of 2004. Two more countries are scheduled to join the EU membership in 2007. One European family with all its linguistic, religious, and lifestyle diversities is analyzed. Jean Monnet's vision of the Europeanization of Europe remains the focus. In 2004, the EU had a population base of 455 million in a land area of 3,852,106 km^2 and GDP at US$12.7 trillion, to emerge as a competitive economic unit.

Chapter 2 presents the time profile of the historical progression of the EU. A review of the Marshall Plan, the OEEC, the OECD, and NATO in the immediate post-WWII Europe is followed by what I have called the process of deepening and widening. Beginning with the Benelux Customs Union, the movement for European economic integration progresses *à la* the ECSC in 1951, the Treaty of Rome, the One Europe Act, the Maastricht Treaty, the Treaty of Amsterdam, and the Treaty of Nice. The chapter adds discussions about one money, the euro, and the ECB, the need for a Constitution for Europe, and the current administrative structure of the EU.

Chapter 3 examines the theory of supranational macroeconomics and offers to fill the gap in the literature which has been anchored to traditional nation-state-based macroeconomies. I have argued that the EU model of a supranational macroeconomy can be defined by two parameters: its shares of world output and trade. Individually, none of the EU-25 member economies has a competitive share, given the world market where one economy, the USA, enjoys overwhelmingly dominant shares of economic activities, and by extension, overly influential leadership. However, the EU-25 as an integrated economic unit has to its credit competitive shares of world output and trade. I have argued that the principle of competition will work in the world market and help optimize economic gains for all people in all the continents of the world.

Chapter 4 is an extended exposition of the euro and the ECB. A revisit with the theory of optimum currency area is called for. Indeed, a definition of the optimum currency area based on a given currency's representation of shares of world output and trade is proposed. The euro–dollar exchange rate has become a subject of much attention; the fact that the euro has emerged as a strong currency vis-à-vis the US dollar is significant and its share as an international reserve currency continues to increase.

Chapter 5 deals with the Constitution for Europe. The EU is struggling to establish its political integration. The Constitution has been drafted, and duly signed by the Heads of the EU-25 member countries. The EU protocol warrants that the constitution must be affirmed by all Member States. Indeed, a majority of the Member States representing a majority of the people of the EU has already ratified the Constitution. Without the complete support of all Member States, the EU is challenged in international forums, as it is not recognized as a true political entity, with one government, one flag, and one national anthem. I have argued that the 10 new Members who joined the EU in 2004 will make positive contributions in this regard.

Chapter 6 sums up the challenges ahead for the EU. True, challenges are welcome as it helps the progressive exploration of new dynamics. The role of the United Kingdom in the EU continues to be an issue. Will the UK, Denmark, and Sweden join the Eurosystem? EU membership to the IMF is a pressing issue even with the ad hoc provision for observer status granted to the ECB. We examine the debate for restructuring the IMF, the IBRD, the IFC, and the IDA as the EU with its competitive shares of contributions is a candidate for international power-sharing. Since the founding of these international institutions, the USA, with its overwhelmingly large contributions, has played the leadership role and consequently exercised its veto power.

Chapter 7 deals with the EU and the USA. For the USA, the search is for expanded geographic cooperation *à la* APEC, NAFTA, and the FTAA, which will enable the cooperative entity to command a competitively larger share of world output and trade. However, US efforts have been limited to traditional FTAs. The EU model of FTA is innovative and provided for the integration into one economic unit. As such, the EU is now one member of the WTO with one vote. The USA now has a counterpart that challenges its economic superiority. The FTA model proposed by the USA is limited and in the absence of a proper model of integration, results remain sub-optimal.

Chapter 8 invites other continents to accept the EU as a learning model. We review the notable preparatory steps in the continents of Asia and Africa. In Asia, the 4 plus 10 model has received much attention. Recently, Asian leadership has called for an Asian-FTA following the EU-FTA model, and also for a single Asian money for optimum monetary policy coordination. Australia–New Zealand has adopted the Closer Economic Relations Act and their FTA is operationally successful. Will they also have a common money? Will they join the Asian Economic Community? Will they elect to join the FTAA, if and when it will be instituted? The Africa Economic Union is officially in progress and its evolution will be carefully observed. I have ventured to suggest that a Middle Eastern Economic Community warrants much consideration. For pragmatic reasons, Middle Eastern economies from Turkey to Afghanistan, albeit they all belong to the continental map of Asia, have not been included in any model of Asian Economic Community. Turkey is of course a candidate country for the EU membership. I have suggested that Mediterranean rim countries of Africa may join the Middle Eastern Economic Community. Several Central Asian countries and Pakistan also may consider becoming members of the Middle Eastern Economic Community.

May all my readers forgive me for any and all errors that escaped my careful scrutiny.