ECONOMICS OF INTEGRATION. A DEBATE OUTLINE

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Abstract
Integration is geographically larger than the EU or European region and did start as one of new specific economic processes of the postwar era. There are at least two types of integration, of which the EU one proves qualitatively distinguished as currently. Such a new movement equally reaches its specific economic thinking which's development proves as complex as producing increasing dilemmas for management and political decision. The paradox is that one century time ago paces to be taken were better viewed than the immediate future here and now appears to the current generation.

Key concepts: *Integration; European type integration; incipient & advanced integration phases; customs union; economic convergence; monetary union; fiscal union; optimum currency area*
Jel classification*: A10; B15; B25*

These lines below gather an ideas and experience synthesis about basics of this (more or less) new topic that *Economics of Integration* is or, at least, wishes to be. Other previous articles of the author and book manuals here compete and what is new is the order of descriptions (as compared to the other articles) and brief space allotted to (as compared to the case of book-manuals[1]).

1. Theoretical basics

1.1 The Balassa's and Viner's contributions; and not only

In all economics, *effective development* and *thinking* about are always different stories. When one says ***economics*** or ***theory of integration*** one sees first the EU and its first theorist ever that is the Hungarian

[1] E.g. Andrei (2007; 2011):

professor Béla Balassa, with his paper of 1961 (Balassa 1961). As seen from today, the fact that this paper fails just one point – i.e. to be a kind of programmatic document for what since the Treaty(ies) of Rome (1959) founded a States formation Organization evolving and bearing a succession of names[1] up to the 'European Union' since 1992 – skips like a very historic detail. Balassa worked for the Union, despite that he didn't ever do it from inside, but as an independent researcher addressing to other people like him. Then, he preferred America, where he moved and performed a good university and scientific career.

Now, there is another author and fact to be mentioned about the same theory of integration. A Canadian Jacob Viner[2] can also be here included, with his 'theory of *customs union'*, trade *'creation* and *perversion*', developed previously than the above highlighted Balassa's paper (Viner 1950). Or, opinions might be here splitted between joining or not the two scholars in a theory (economics) of integration common or unique topic area. The two authors taken together means at least developing, approaching or 'scanning' the customs union description (Viner) in the context of a five phases integration development, among which phases the same customs union comes on the second chronological position; plus, the double biographical similarity between the two authors as coming from different geographical parts of the world to explain about integration in the western Europe and then going over Atlantic to live, work and making their careers.

The alternative to 'the two authors joining together' is considering just Balassa the 'gates opener' of a topic for which the current generation might enumerate names like: Jaques Pelkmans (Netherlands)[3], Alan Meyhew (UK), Loukas Tsoukalis (Greece)[4] and many others like just 'general theorists', together with an exponentially higher number of specialists of all kinds for the EU specific issues. This is the alternative in which the *customs union* theory of Viner would add to other third theoretical developments 'coming from outside' to serve the economics of integration. Theories like '*economic conversion'* (Solow, Samuelson and others), theories of '*optimum currency area' (OCA* / R. Mundell, R. McKinnon, J. Meade, M. Friedmann and others), of '*international monetary system*' (IMS/ R. Triffin)[5] and even the '*Balassa-Samuelson effect*'[6] do the same in context.

[1] E.g. Euopean Community and Communities (which were European Community of Coal and Steel and Euratom), Common Market, finally European Union.
[2] Born there in a family with Romanian origins.
[3] See, at least: Pelkmans (1980, 1094, 2003)
[4] Tsoukalis (2000)
[5] The two theories will be also met below.
[6] This is the other essential contribution of Balassa in his career. Otherwise, this theory deals with a much longer series of authors, starting even with David Ricardo. It is equally

1.2 Theory of international trade, a '*sinequanon*' premise

Economics of integration could equally add one more aspect that actually might appear in a converse descriptive order, meaning as the first, instead of the last, as here. Let us just consider the real integration like 'another economic internationalization', more precisely that there would be no integration without international trade and the other international flows and this would be enough to take the economic *integration* (postwar events and international trend) – economic *internationalizing* (starting around the sixties of the 19th century, together with the first industrial revolution, now in a strengthened but also controversial 'globalizing' phase) relation as enough special.

Put in different terms, the '*theory of international trade*' might be similarly seen as the other theories that economics of integration relates to. But in reality, this lastly mentioned theory should be taken as the essential premise of integration by all: starting hundred years before, and that with economic *openness,* then shaping the *international economy*, as autonomous flows, and claiming the common economic principle – the one that the economic openness is better than any autarchy. It is also true that later on integration will be found as sharing internationalization only partly, in its *incipient* phase (like deepened below). But all these, in our argument, are pretty enough to accept economic internationalization and its afferent theory in a qualitatively different position than all the other above mentioned theories that join and help the same economics of integration.

And let me develop such argument. Economists reveal that this theory meets some essential moments and contributions that are: (1) the classical one – for which the truth is that David Ricardo (1817) was the lonely contributor and (2) the neoclassical one, so called '*Neoclassic Synthesis'* or the *HOS* (Heckscher, Ohlin and Samuelson) *model*. Then, (3) other contributors like Irwing Meltzer, Wassily Leontief and others. Ricardo had found *national specializing* in international trade context that makes *absolute* and *comparative* advantages of nations, in the international context. Despite a 'classic' that means liberal view economist that was continuing on the Adam Smith's 'invisible hand', a genius like Ricardo found himself equally comfortable to judge about the nation's resort in the economic context, that was not so clear idea at his time. This genius had the intuition of what was going to occur several decades later, when business was cumulating both national and international capabilities – and this is 'unique' as not similar to the forecasting models type of approach. There would be the nations' interests leading flows and developments along the

interesting that this theory acts like challenging or opposite to economic conversion, so to the integration process.

international area, due to that there aren't stronger interests world-wide than these. There will be business, as well, and national interests relate to, but the same nation keeps its own specific interests. Unfortunately, national economic interests will get conceptually clear only hundred years later in the economic thinking, with the J.M. Keynes' maturity book (Keynes 1936), but Ricardo had even more than one century earlier succeeded to cope with his own time circumstances. His '*absolute*' nation's advantage in international trade points on production and employment, whereas *comparative* corresponding advantage equally involves utility consumption and so the nation's life standard. The previous might be neutral as regarding the other nations and not easy to evaluate; the latter is much more appropriate for comparing nations among them on performing in the international exchanges area. The comparative advantage makes international inequalities and inequity, but important is that this contains a huge new economic transforming 'energy' and even good is that the international market 'is more competitive than all national markets', in the Ricardian view. As the result, prices are internationally more stable and all international business might be easily conducted from home. As consequently, no capital movement needed (i.e. international investments); the same for other production factors, that could similarly ever stay home. This would be 'just one international market' that fills the *Ricardian view* of market in the modern economy.

Ricardo here undertook a modeling on two countries trading between two market goods[1]. So narrowing the international economic picture the classic succeeds to stay close to both internationalizing and customs union, as in the theory of integration's context – and that even better than the later on neoclassic HOS studies.

Ricardo was finally wrong, despite that aspect was far from disqualifying his contribution to (or off) this theory. One century later, the neoclassic HOS first understood that the international market truly isn't more competitive than national markets and the two components of a modern market economy actually just aren't to be compared to each other on such a criterion. On the contrary, the two kinds of markets do exist and work both conceptually and practically – since there are all over two price levels for one market good, and even the international price level of the exporting good is always higher than its corresponding home price. This is the new vision of modern market that is the *post-Ricardian view.* This new picture is also the one in which the Ricardo's absolute advantage of the nation is less investigated (rather neglected by neoclassics), the international

[1] That was between England exporting wools to Portugal and Portugal exporting wines to England.

area enlarged, as compared to the Ricardo's studying on just two countries, and *comparative advantage* gets clear enough, as functioning – the classic had just found it, as really existing, but his significant weakness was that of not explaining it.

This new explanation went hand in hand with accepting the international market as not more or perfectly competitive. Every nation[1] has some resources more abundant than others, e.g. soil and/or subsoil resources, labour and capital, as translated into production factors. All nation considers these are for being put into value and this is a 'kick-off' common to both national interest involved in the international trade and comparative advantage, as effective. Industries basing on more abundant factors proceed on exportation. But then, there comes a new moment in this implementing story: such goods compete each other on the unique international market making the indirect competition of factors themselves. As consequently, there will be one criterion to decide on such competition, i.e. *value-added* of competing goods – the country exporting higher value-added goods, and correspondingly importing lower value-added goods, will be the winner, such rather qualitative difference making the comparative advantage that classic and neoclassic approaches have searched for so far. And that is due to some more competence of offering an exportation price that indirectly controls other good prices when working higher on the production *vertical*. Exporting extractive industry goods is disadvantaged against all trading goods that beard any processing. Manufactured goods are in advantage as against these exports, but disadvantaged against complex and highly processed goods. Agriculture makes its final goods less value added ones, with specific consequences on comparative advantage world-wide etc. Though, crises of resources are able to disturb such an international order – sometimes exporters of resources in crisis get suddenly reach – like oil exporters in 70ies, for the first time, and especially Arab countries, big country resource exporters like Russia get even able to put political pressure on developed country competitors for such a long time etc. Narrowing international trade also makes such differences between nations' performances less intensive, whereas enlarging markets, on the contrary, intensifies the same symptoms.

Development of the international trade theory is much advanced today on other different aspects. The '*Metzler type paradox'* (Metzler 1949)

[1] In harmony with some scholars, we can argue that, despite his clear view of economic phenomena, Ricardo failed to make the difference between the nations' option for international trade and their less propensity for competition – maybe, for the classic, the option for international trade was the same for competition here ensured.'Poor Ricardo' failed to understand that nation might be as selfish as all market competitors, and that due to his 'English' human structure.

explains that the import restriction on a type of good would be able to ensure a trend of approaching the price level of the home corresponding industry (producing the same good) to the corresponding international price level. This theory also helped understanding imports as a pricing policy tool – contrary to restrictions applied, imports are sometimes able to decide on a price level in a shock therapy way.

The theory was able to advance on both philosophies of acting: the one of *trade liberalizing*, but equally the opposite one of working on *restrictions* that would be able to protect home industries against foreign competitors. Trade policies are written and shaped by the same theory, the same as the United Nations' World Trade Organization (WTO)'s programmes.

Another set of approaching theory of international trade does revise the post-Ricardian view of the today market economy evolving. Recall that the Ricardo's 'two countries and two goods' model contains the 'factors stay home' restriction-hypothesis [1]. There can be currently accepted a national-international market landscape as not essentially altered since the early 20th century view, but also another double aspect is now enough valid: either other international flows than trade get increasingly important, or capital (i.e. international investment and financial markets) and labour (i.e. international migration) look for each other in all possible (e.g. national and/or international) environments[2].

Or, first, this accuses the already revealed imperfection of international market competition – on the other hand, such factors' movement tends to remake or repair the same competition. Next, pure factors moving do not keep similar consequences to the ones of goods with this or that factor incorporated. Thirdly, this way international investment becomes a special topic; so does international migration.

As here concluding, there couldn't be any integration without *internationalization* – so, no economics of integration failing to previously understand the great international trade theory here developed between the Ricardo's time and the current day. However, this is to be taken in a complex truth context of integration that proves able to deal with a longer series of theories and positions. As for example, first, integration can be viewed acting like just a more genuine way of trade policy-restrictions combined (i.e. rather restricting the international market to deal with) – so, integration would simply stay a 'limited internationalization'. But an advanced integration (see developments below) could also overpass the simple economic internationalization through searching for a large

[1] The one that even contradicts his 'international perfect competition' view.
[2] Some studies were undertaken on the premise of possible connections between the two flows.

economic area (multinational region) not complying with national specialization of industries, but tending to produce all utilities – like in the vision of optimum currency area (OCA).

2. Non-theoretical basics, as well

But I try to believe that the above list of theories supporting economics of integration even isn't all about. And it is even inside the EU's story that I look when arguing this. Or, it is a 'special' component of integration that can be seen – for the same integration process -- not exactly as in a previous economist's referred view, but this time as in the view of some literary critics that highlighted an artistic procedure used by the French writer André Gide, in his classical novel '*Les Faux Monnayeurs*'[1]. That was called '*mettre a l'abîme*'[2] and consists in emphasizing the similitude between the whole story and just a scene within.

There is, in other words, something inside the integration programme that could recall this full story – and this is the Common Agricultural Policy (or Programme, that abbreviates as CAP). Or, CAP – that otherwise might always be classified differently than here[3] – does not fill the whole integration, but tends to be similarly impressive. Recall that it started in early 60ies for a political reasoning – so the European Community had done before 1960. Then, CAP is a long-term programme, as well, and hasn't ended – integration did not end, as Balassa had foreseen in 1961, as a post monetary union era. Integration is a process full of contradictions that come up in its each step forward – so is CAP, and here recall: starting CAP for both consumers' welfare ensured and farmers' work ensured and, when both aims fulfilled, this Programme came to be 'a victim', instead of claiming its full success; the 'quotas' imposed; problems with inter-member States competition increase when Spain and Portugal joined in 70'ies; problems with 'British taxpayers collecting for French farmers' welfare' since UK joined less than a decade later; problems with WTO, when subsidizing and anti-competition policies applied; all budgeting problems when member States differently contribute to CAP and the Programme requires the highest part of the EU budget for individual policies etc.

In a word, CAP does survive – and so can claim its success --, but it is permanently that it finds the word 'success' as too much said.

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[1] Translated: 'The Money Forgers''.
[2] Translated: 'putting (it) into the gap'.
[3] i.e. in the set of the EU's policies developed.

3. Reviewing the Balassa's integration model

Here recall the Balassa(1961)'s basic paper with its five implementing steps –*(i) free trade area,(ii) customs union, (iii)common market, (iv)economic union,(v) economic and monetary union* – and let us simply emphasize strengths and weaknesses of. First, Balassa proves a strong economist since items of his language were able to be literally 'imposed' to the EU's leaders and papers issued ever since -- i.e. expressions like 'economic union' or 'monetary union' did not belong to the Union's slang before being used by this 'classic'. Then, the model itself has met no serious retort so far.

I equally believe there is to be mentioned another aspect for this paper's strengths – this might be even similar to that old Ricardo's intuition on the international market coming to be born several decades later than his time. This is about the 'monetary union'. Or, it was in 1961, when the author was arguing that the Union would need a monetary union, and that was a special issue. Why? Because of two things. The one is that pleading for a 'monetary union' equalizes the blame for the international monetary order that is just the other aspect: this order was in place much more than any before time or than even today. At that time, the Bretton Woods international Agreement had started in 1944 and was coming to its end not less than one decade later, in 1971. Once more, in 1961, the international monetary system (IMS)[1] was well working and few were the ones doubting its performances (Cross 1989[2]).

But then there comes the other part, the one of weaknesses for Balassa. And even on the same monetary issue. More precisely, criticism on that paper could start where considering the monetary union phase as the last one in fulfilling integration – all agree that integration is still far from being ended today; some even argue that this step was rather forced to, being implemented too early.

Another criticism stays related to the monetary union as well: if it had been like in the Balassa's view, we could identify this last phase with the period of the common currency implemented that started in 1999 (or, let's admit it, in 1992, when Mäastricht Treaty). Or, reality is much different than this. Briefly, the common currency couldn't arise without its previous 'European Monetary System ' (EMS / 1979-1999) and the last couldn't be either, without the previous attempt of 'Monetary Snake' that started even the year of the Bretton Wodds Agreement's bankruptcy (1971). Enough for arguing that the real monetary union phase has been longer than earlier

[1] That we will come back to in the below lines.

[2] The author mentions some alternatives to the Bretton Woods Agreement IMS, among which the hypothesis of bilateral agreements between States settling exchange rates' target zones of floating for currencies in question.

foreseen or even that it wasn't just a phase as in the Balassa's view – finally, that such a model of 'phases' would no longer be valid.

Since the early 70ies the starting monetary approach dealt with the other stages, and especially with the one related to *common market.* The last even could differently qualify than as a 'phase', or 'stage', or implementing step. In such a view, this 'phases' outline fails to be confirmed by what happened in the region since the early 60ies. There even comes to be noticed that this model shares between an early part – the one formed by free trade area and customs union – that confirms the author's foreseeing, and the other one that appears increasingly 'fogged' to the author.

Here let me add two ideas. First, it is true that the Balassa's paper of 1961 has not been retorted by any other author or group of authors offering a new vision on the EU integration programme in a similarly valuable work, paper or series of papers. The other idea is that, despite such a situation, the 1961 model had to be criticized and such critics are always 'healthy', as scientifically – no critics would be just: 'no further studying'.

4. Reviewing the integration concept

But a full criticism on such a model would end by just a new outline presumably able to replace that 'phases' vision with something else as similarly credible. Or, let me here advance such a view in the following simple table-scheme.

INTEGRATION[1]		
criterion	**INCIPIENT**	**ADVANCED**
basic structure	international	unique-common market
commandments	free trade area customs union	convergence optimum currency area

This table-scheme above depicts integration as formed by two (also) phases or parts: (a) incipient and (b) advanced parts integration. Roughly superposing this simpler view on the former and old model of Balassa, the *incipient integration* could comprise the *free trade area (FTA)* and *customs union* steps, whereas the *advanced integration* would identify to the rest of development, but this is differently viewed here. The two here have (i) basic structure – which is one for each part -- and (ii) commandments – which are two for each part. There can be here found that integration would be just *internationalizing* only for its incipient part, whereas the concept of *common market* is here differently considered than in the Balassa's model. The idea here is that common market is as dominating the advanced integration as

[1] See also Andrei (2014),p. 98.

internationalizing appears at the same for the incipient part – in other words, the two concepts are equally assessed for integration.

Last, but not least, the equivalents for free trade area (FTA) and customs unions (in the incipient part of the process) are, respectively, *convergence* and *optimum currency area* (for the other advanced part). Or, this is enough for noticing the conceptual difference between incipient and advanced integration parts, as the one between the FTA-customs union and convergence-OCA couples. Actually, the forthcoming parts of integration for the early 60ies (i.e. the incipient part) and for now, in the second decade of the new 21st century (i.e. the other advanced part) were differently, even paradoxically viewed by the two corresponding generations. So it was paradoxically clearer for the early 60ies what was going to happen at that time than it is now for what it is expected to happen. Thing is that all these are not because the current generation would know less about integration, but because circumstances are more complicated and special today – there is rather no comparison between *FTA-customs union* (rather just legal descriptions) and *convergence-OCA* (a couple of theoretical concepts not unanimously agreed).

Or, let us here underline some precisions made. This paper does not compare to the one of Balassa (1961) the way that the above view on integration might more easily be retorted. But let me also defend my arguing. In the first place, this might be partly similar to the old 'stages vision' – here and now with two stages, instead of five --, but there also are two more aspects. The one is that our here phases appear not as 'separated' from each other than in the old model – e.g. even the customs union (the incipient stage) can prove some OCA (later stage) capabilities.

The other is that the EU's history could more easily be found as divided into our two parts than it is the case of the old five stages image. In my opinion, the EU's monetary history here is more helpful, i.e. whereas the 'monetary Snake' (1971-1979) can still identify with incipient integration, then EMS and all the more the common currency belong to advanced integration.

There concomitantly are more arguments for this new conceptual proposal – and this is for the first time here that we attempt a largest view – the EU and more than that -- on integration. So, it is not only the EU's history that makes such a difference. In Europe there still is the *'European Free Trade Area'(EFTA),* which is roughly the same age with the EU, but now still exists rather formally – so do the other non-European States formations. Roughly, there is to be claimed a difference between EU (i.e. the EU type integration) and the rest of States formations world-wide (the other integration type that spreads on northern Africa, Middle East, Central and Latin Americas etc.) and might be claimed by more than hundred States

world-wide. Or, this difference – that re-composes the whole view on integration – is the one for which the EU includes incipient integration and for the other integration type this is the whole that is undertaken.

One more aspect is that the non-EU type of integration is the one that can more easily be left by member States, when national interests and/or other circumstances require as such, so this type is more easily and often exposed to disruptions. The EU case is much different issue: both the member State and Union are too much affected by any initiative of such a kind, the way that there can be mentioned no case so far, not even during the recent crisis.

5. Some of the advanced integration issues

5.1 Convergence and optimum currency area

Let me mention that expression like *advanced* or *incipient integration* haven't been used so far by anyone else in the given context of integration. Plus, there has been already mentioned a new type of relationship between *convergence* and *OCA*. It has been already seen above that the difference between this couple of concepts and the other couple of concepts – that was FTA and customs union for the incipient integration – is significant. The latter concepts were just two successive phases, whereas the previous *convergence* and *OCA* wish both identify with the *integration* itself. Besides, both relate to the macroeconomic scale, as compulsory.

Convergence suggests some more *dynamic,* as compared to *OCA* that claims stability as a *state*. Both are theories 'coming from outside' to join integration, a fact that proves that the last succeeded to strengthen the today economic debate. As for instance, *convergence* was previously appropriate when debating on significant recovery of some countries in the war's aftermath (e.g. Germany and Japan /Solow 1956) on the explosive development of some former underdeveloped economies in Middle (e.g. Qatar, Kuwait etc.) and Far East (Singapore, Malaysia, South Korea etc.), as well as on the larger problem still regarding underdevelopment – actually, opinions split enough here (Andrei 2014, pp. 101-103)[1]. At the other end, in the integrative context issues get not much different than in general, e.g. inflation, including money depreciation, together with its determining and influential factors, indicators that prove able to 'converge' on different speeds, '*catching-up'* phenomena, types and criteria (of convergence) and so on (Andrei 2014, pp. 97-103).

[1] In which Solow and Mankiw, as convergence believers, are contradicted by Frankel, Myrdal and others.

On its part, *optimum currency area (OCA)* had previously met the post-war [1] and post-Bretton Woods currency area phenomena (Guitton & Bramoulé 1987). Recall that the hard currencies claiming their (currency) areas were the five that were forming the IMF's SDR currency basket before Euro[2] and these areas were (ex) tending to cover the planet, here including during the post-communist transition of the central and east-European countries (Andrei & Andrei 2009). A context in which the Europe region was finding itself in another special circumstance: i.e. Western Europe was a Deutsche Mark currency area, 'subordinating' currencies like French Franc and Pound Sterling which were keeping their currency areas outside the European region. Then, Euro came up – swallowing Deutsche Mark, French Franc and many other national currencies and so wiping out the previous regional monetary picture, but equally the world-wide corresponding currency areas picture – an expression like 'Euro area' or ' Euro-zone' comes to be improper in this above context; in reality, the multi-country region afferent to the newly born European common currency gets assumed to be much larger than the Euro-Zone common and current understanding and differently significant at least partly. Confusion between the two understandings of the *Euro-area* comes especially from the over-border sizes of the two. And the true similarity (i.e. with not confusion produced at all) consists in the OCA essence of 'no asymmetrical shocks' (Mundell 1961).

5.2 The proper story of common currency

Recall from above the truth that the EU's monetary approach – i.e. the full story of Euro – did start in 1971 -- when US$ crisis of three successive devaluations and gold convertibility ever-since suspended by the American monetary authority, so breaking the international Bretton Woods Agreement of 1944 – immediately after the US$ started floating (i.e. essentially and even impressively depreciating). This was a new agreement that was called '*Monetary Snake'* that lasted under different successive forms and rules up to the end of the same decade. Actually, on the one hand European governments and central State banks not only did act quickly, but previously they even had to; on the other, they were forced to see that their area was yet proving dependent on the US – at that time, when the US started accusing their weakness, as much as previously, when the last had been strong at the great war landing or afterwards, when they started Marshall Plan. These prove enough to conclude that the Snake's specific

[1] Guitton & Bramoulé (1987) mention that the Pound Sterling's area had arisen in early 30ies, just after this hard currency was gold-convertibility ever since suspended.

[2] US Dollar, Deutsche Mark, Japanese Yen, French Franc and British Pound Sterling.

weaknesses were coming by far more obvious since preserving such dependence as a prolonged handicap of the region.

That apparently was the next EU's monetary movement: turning the old *Monetary Snake* into the *European Monetary System* (EMS) in 1979, the new System forever eliminating the American monetary reference in favor of a new collective European one. And this was, more exactly, just one facet of such a changing. Besides leaving the American monetary representativeness base, other two facets came to be even more substantial. The one was linked to the *International Monetary System (IMS)* concept, lastly academically related to Triffin (1973), i.e. even through the EMS title, Europeans did not hide that their undertaking was, at least indirectly, related to either the older Bretton Woods Agreement (1944-1971/ Triffin 1964), or even to the previous Gold Standard (1880-1931) many decades before (Rueff 1973). Or, the IMS[1] concept was already controversial at that time: i.e. on the one hand, both previous IMSs had similarly crashed, on the other, McKinnon (1993) revealed that, despite the huge criticism upon the Bretton Woods system, EMS (1979-1999) had essentially brought nothing new.

As in detail, McKinnon (as an American professor), in his article, shows on 'two columns' that the two international monetary systems had all: (i) *nominal anchor* (those were the US$ and German Mark), active and supporting (ii) *international financial institutions* (those were IMF and European Monetary Institute, later on turning into European Central Bank) with their corresponding (iii) *account currencies* (those were Special Drawing Rights and European Currency Unit, as respectively) and (iv) *fixed exchange rates*. But, finally, fixed exchange rates are always appropriate to *metal parities,* and never to *fiat money* that European currencies were in the postwar era. In other words, the McKinnon's series of conclusions was something like: (a) this type of IMS is perishable by rule (as it had always been), (b) all the more, EMS was inappropriate for fixed exchange rates missing the parity notion and so its disaster was imminent, (c) the last being expected for each national currency becoming a 'nominal anchor' against the other national currencies within the system that put the previous in a specific unbearable pressure, finally (d) there was no any IMS rule that the 'two IMSs' were submitted to since their similarity here revealed – but, the *Optimum Currency Area* theory, as more valid theory than the IMS one. As in more detail, once more, ultimately the EMS was not going to crush, like its previous IMSs of the same type, and that despite its 'no chance' given by the American professor – it was programmatically changed by (into) the

[1] There was to talk about a valid IMS when: (1) a solid unique basic value supporting an international price system, (2) a remaking member States' external balance of payments equilibrium mechanism, (3) fixed exchange rates and (4) law enforcing of the system.

new *common currency* that was and is Euro. Actually, it hasn't been like the 'IMS type crashing', but who could still argue that it wouldn't be?

There comes the other EMS' facet: i.e. the last was not qualitatively different than the next-coming common currency. Fixed exchange rates, taken by EMS, according to all rules, here including of IMS, were essentially banning or harming monetary policies and clearing the way for the new common currency and its unique (next coming) monetary policy working since 1999.

The conclusion of this part would once more be that of having a new and common currency for Europe that was anyway expecting its hard times of future – that had already confirmed presence after 2002 --, but previously such undertaking had 'looked back': rejecting the old *nominal anchor* experience of OCA and/or IMS types; an experience that never was any option for European monetary approach and/or for integration.

5.3 Two more current aspects of OCA

Just keeping aware of that our story here is anyway an unfinished one. A lot of events is expected on the ground, whereas, on the thinking about area convergence and OCA are expected to expose more correlations. As for this paper, there might be just two significant aspects to be underlined about OCA.

The first one succeeds a significant comparison between integration – in its advanced phase here and now considered – and the older theory of international trade above described. Recall how the old classic-neoclassic and large theory was claiming that 'open economy is better than autarchy' when 'nations specialize on industries' in the international area, absolute and comparative advantages cooperate to improve economic development, employment and life standard in the home area. The aspect here is retorting such an idea in a brand new context: OCA requires, on the contrary, '*all industries be functioning all over the area*', as just an apparently '*new autarchy'*. But in a more deepened reality this *integration* is neither *internationalization* any longer, nor internationalization *of such a type* that ever brought comparative advantage and differentiation in. This is, instead, a region of several nations still approaching each other in a process that plays on a(n even temporary) closed (i.e. closing) economy, against the rest of the world.

The other aspect has also been described and deepened by Andrei (2009 & 2010): *fiscal union* – accompanying monetary union already reached. There is as much responsibility in several authors' arguing on the need created for a fiscal union as 'physical' political resistance in the European area against any unifying fiscal systems – easy translating by 're-centralizing' the Organization. As the result, *fiscal union* isn't yet the here

expected subject of debate, as theoretically the 'lonely way' on achieving European integration.

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