



BANCA D'ITALIA  
EUROSISTEMA

## Mundell's plan for a European currency: from theory to history

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*International Macroeconomics in a Changing World: Old Questions, New Realities*

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Ladies and Gentlemen, Dear Colleagues,

It is a great pleasure to welcome you all to Banca d'Italia for this workshop, jointly organized with CEPR and LUISS University. Let me thank the organizing committee for having put together such an impressive programme, and William Mundell and the sponsors of the Robert Mundell Chair at Columbia University for launching this initiative.

We are gathered here today to honour one of the greatest economists of the twentieth century. Professor Robert Mundell was awarded the 1999 Nobel Prize in Economic Sciences 'for his analysis of monetary and fiscal policy under different exchange rate regimes and his analysis of optimum currency areas'.<sup>1</sup>

Yet this Nobel citation captures only part of Professor Mundell's intellectual legacy. His work spans a remarkably broad range of topics: the macroeconomics of monetary unions, the architecture of the international monetary system, and the geopolitical forces shaping it. It is this breadth that makes his work so relevant today.

Professor Mundell began a 1969 paper with words that sound strikingly contemporary: 'Europe today stands at a cross-roads. In politics. In technology. In economics. In culture'.<sup>2</sup> More than half a century later, Europe is again at such a crossroads. War, geopolitical rivalry and economic fragmentation are reshaping trade, energy markets and strategic dependencies. Artificial intelligence is opening vast opportunities, while raising profound questions about productivity, inequality, security and sovereignty.

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<sup>1</sup> For more details, see the The Nobel Prize's website, [Robert Mundell. Facts](#).

<sup>2</sup> R.A. Mundell, 'A Plan for a European Currency', paper prepared for discussion at the American Management Association Conference on *The Future of the International Monetary System*, New York, 10-12 December 1969. The paper was rediscovered and posted in 2012.

In this changing world, Professor Mundell's work is not merely of historical interest. It helps us understand what gives a currency its resilience when economic power, technology and geopolitical influence are increasingly intertwined.

As Governor of Banca d'Italia and a member of the ECB Governing Council, I will draw inspiration from Professor Mundell's pathbreaking contributions to reflect briefly on the euro: its political origins, as he understood them, the economic tests it has faced, and what remains to be done to complete its construction.

In setting out the conditions for an optimum currency area, Professor Mundell's celebrated 1961 paper identified limited factor mobility, above all labour mobility, as the main structural obstacle to a European monetary union.<sup>3</sup> Other prominent economists stressed that the absence of a common fiscal stabilization mechanism would further undermine the area's ability to absorb asymmetric shocks.<sup>4</sup>

Yet there is another Mundell, whose vision was perhaps even more prescient. In his 1969 paper, he outlined a detailed plan for a European currency. What is striking is that, for Professor Mundell, the economic case, though compelling, was secondary. In his words: 'The case for a European money must be made primarily on political grounds, just because politics in the widest sense of the word has to override economics'.

In this, Professor Mundell grasped something that many economists missed: the European monetary union was never merely an economic project. It was, from the outset, part of a broader political project, born from the ashes of two world wars.

It was the determination to prevent another fratricidal conflict that led to the creation of the European Coal and Steel Community in 1951. As Robert Schuman put it, pooling coal and steel production – the raw materials of war – would make conflict between European nations 'not only unthinkable, but materially impossible'.

From that founding act of reconciliation, Europe has built, step by step, an ever-deeper union; thirty years after Professor Mundell's political plan for a European currency, that vision became history with the launch of the euro.

In the decades that followed, two waves of severe shocks put that vision to the test. Europe's responses differed sharply in the two cases.

The first wave came with the global financial crisis of 2007-08 and the sovereign debt crisis of 2010-11. The shocks were large and asymmetric, and their impact was amplified by procyclical and uncoordinated fiscal policies across member states. The result was damaging fragmentation – with Europe divided between a 'core' and a 'periphery' – and, for the first time, fears that the euro area might not survive the strain. The burden

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<sup>3</sup> R.A. Mundell, 'A Theory of Optimum Currency Areas', *American Economic Review*, 51, 4, 1961, pp. 657-665.

<sup>4</sup> P.B. Kenen, 'The Theory of Optimum Currency Areas: An Eclectic View', in R.A. Mundell and A. Swoboda (eds.), *Monetary Problems of the International Economy*, Chicago, University of Chicago Press, 1969, pp. 41-60. See also P. Krugman, 'Revenge of the Optimum Currency Area', *NBER Macroeconomics Annual*, 27, 1, 2013, pp. 439-448.

of macroeconomic stabilization fell entirely on monetary policy, and Mario Draghi's 'whatever it takes' helped turn the tide.

The second wave of crises told a different story. The pandemic and the energy shock following Russia's invasion of Ukraine were even more severe and wide-ranging. Yet this time Europe's response was swift and coordinated. The Next Generation EU programme complemented monetary policy instead of working against it, while national measures cushioned the blow for households and firms. The lesson was clear: when Europe acts with common purpose, it can advance its construction in ways that previously seemed impossible.

But the challenges now before us are broader. Europe must not only make the euro area more resilient to shocks. It must also equip itself for a world in which security, technology, finance and monetary sovereignty are increasingly connected. This requires the political resolve to complete the euro's institutional architecture.

Progress is needed on three fronts.

The first is to revive economic growth through reforms and common investment. Europe must strengthen innovation, deepen the single market and build the scale needed to compete in advanced technologies.

But reforms alone will not suffice. As Professor Mundell had already seen, integration is needed to capture spillovers in fields such as communications, education, technology and defense. Today, this requires joint projects in research, energy, decarbonization, digital infrastructure and artificial intelligence.

The second front is to turn European capital markets into a true savings and investment union. This is a strategic objective: Europe cannot finance innovation, the green transition and defence capabilities through fragmented national markets. Simpler and more harmonized regulation is needed, together with a European safe asset jointly guaranteed by Member States, to provide financial depth and channel European savings towards European priorities.<sup>5</sup>

The third front is to strengthen the backbone of the euro by completing the digitalization of Europe's payment system. This concern is not new. In his 1969 paper, Professor Mundell warned that Europe's monetary sovereignty was already being eroded by the dollar and the Eurodollar market.<sup>6</sup> Today, that concern arises in a new form. Critical infrastructures have become instruments of geopolitical pressure, and payments are no exception. Ensuring that central bank money remains available in digital form wherever payments take place – in retail and wholesale markets, domestically and across borders – is therefore part of Europe's monetary and political sovereignty. For retail payments,

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<sup>5</sup> A natural way to ensure a steady issuance of safe assets would be to use them to finance the common European projects I mentioned earlier.

<sup>6</sup> In Professor Mundell's words: 'Why should an international business in Italy maintain lire deposit when (or if) it can use Eurodollar deposits on virtually equal terms?'

the digital euro would ensure that citizens continue to have access to central bank money in their everyday transactions, while strengthening Europe's autonomy in a more divided and digital world.<sup>7</sup>

Let me conclude.

Jean Monnet famously said that *l'Europe se fera dans les crises* – Europe will be forged in crises – and the progress made since its inception seems to confirm this vision. But in a world that is changing as rapidly as ours, driven by war, geopolitical fragmentation and technological disruption, slow and crisis-driven progress is no longer enough.

We must shape our future before crises force our hand. The euro, as Professor Mundell understood, is not merely a currency. It is a symbol of what Europe stands for: unity, sovereignty, economic prosperity, and the ability to defend the political values of freedom and openness.

This is why I prefer the sharper exhortation that Professor Mundell addressed to Europe in 1969, and which remains as pertinent as ever: 'It is time for Europeans to wake up'.

With this exhortation in mind, I am delighted to welcome such an exceptional group of distinguished panellists and keynote speakers. I am confident that today's discussions will offer valuable insights into how Europe – and the euro – can continue to move forward.

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<sup>7</sup> The Pontes project, which has a short- to medium-term horizon and a trial planned by end-2026, aims to connect distributed ledger technology (DLT) platforms to TARGET2, the wholesale payment infrastructure currently used in the euro area. The Appia project pursues the same objective in a longer-term perspective, through the creation of a fully DLT-based ecosystem for settling wholesale transactions in central bank money, including cross-border transactions.