

# Is the Economic and Monetary Union of the European Union an Optimum Currency Area?

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**Abstract:** *Currents of thought about the genesis and evolution of the optimal monetary area should be evaluated, in our opinion, by specifically employing a progressive approach. Such a vision comprises the authors' attempts to answer the question: is the European Monetary Union such an area?*

**Keywords:** genesis, criteria, flexibility, arguments

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## 1. Introduction

The day of 1st of July, 2002 marked not only the full rise of European single currency, but also the shaping of a new reality in the very bosom of the European Union - the "euro area", thus designating the group of countries where monetary policy is coordinated by the European Central Bank based in Frankfurt, Germany. Expectations of positive effects were high, even if more at a business level than among the population, who despite some clever and supported marketing campaigns reluctantly received the most synthetic expression of the economic and financial - the new Euro currency. But, what was this situation shortly after the launch of the Euro? (Martinot, Bertrand, (2003), p.6).

First of all, different national attitudes gave an ominous sign for the young monetary union. Germany, being in recession, seriously doubted that the new currency will benefit the economy replacing the German mark. Southern European countries - Italy, Spain, Portugal, Greece – rushedly considered that by their qualifications to joining the Euro area, somewhere unexpected and maybe, in some cases, undeserved, the essential was achieved and they can settle with this *status quo* itself. UK did not understand what benefits would joining the common monetary area bring to it. As for the French, they could only receive with satisfaction the dissolution of the former mark zone into a much larger monetary area. For it seemed much better the position to share monetary sovereignty that had become largely illusory, than submit to Bundesbank policies that made decisions based obviously on German interests. But France was not able for the moment to develop a project to bring the euro area out of the evident torpor it was in. In conclusion, after EU countries have known the economic and monetary common area, they found it not as a prerequisite for development, but as an achievement in itself, focusing primarily on national interests.

## 2. Genesis of the Euro Currency: a Controversial Phenomenon?

„As an essentially political currency by its very birth - says Bertrand Martinot, national expert at the Economic and Financial Directorate General of CCE between 2000 and 2002 - *by the deep reforms it entails the euro will not be a prosperity factor unless rights policy will resume in a field that, in fact, never left*”. For the euro was not born “, as a result of a spontaneous social demand”, but as a result of a “... tenacious

*political will*" (Martinot, 2003, p.11). This firm statement opens the possibility of a categorical approach both interesting and useful to the "Euro phenomenon", from a political science perspective, especially since the great challenge that the Maastricht Treaty includes is the creation of a monetary union without a prior political union of the Member States. A true historical first, as shown a brief foray into history. Since, as noted above, it holds the statute of unique event in economic history, the single currency should not be regarded as natural and inevitable result of the European economic integration, a "coronation" of the achievement, in 1993, of the Single European Market. Especially since the creation of a free trade area does not imply necessarily a single currency. For example, Canada, which is part of NAFTA (the North American Free Trade Agreement), and which achieves 80% of the exports in this market and 30% of GDP, has its own currency. Similar to our country, economies very strongly related to the euro area countries, like those of Sweden, Denmark and Switzerland, do not seem to suffer at all, because they retained their national currencies. As for Britain, whose economy, on the contrary, is not very connected with the economies of continental Europe, is a very clear example that the monetary policy pursued by its own Central Bank is better suited to his interests than the ECB policy, which is more "calibrated" to the specific economic situation of the countries on the continent.

The idea that the euro area would be the result of a long journey, is misleading, although ever since 1970, Luxembourgier Pierre Werner presented the first report on the future single currency, based on which the European Commission estimated a possible monetary union within only 10 years. The model proposed in the Werner Plan was actually fundamentally different from the Maastricht Treaty and therefore it cannot be said that there was a concern for continuity in the single currency. At that time, the International Monetary System, based on the Treaty of Bretton-Woods signed in July 1944, was still in force, all European currencies were convertible into dollars at a fixed parity through an international agreement, and the dollar was convertible into gold at \$ 35 an ounce parity. Also at that time, the financial markets were still little developed. Under these conditions, the formation of a monetary union would have been nothing more than a technological measure without great immediate macroeconomic consequences.

The advent of the euro area seems to be due to political factors more than to the economic and financial ones. A strong argument in favor of this assertion is that the creation of the single currency was not the result of discussions and esoteric negotiations between technocrats, for if it had been so, they would just have to be its main supporters. Or, financier technocrats both in public areas and in private, the majority of senior officials from finance ministries and the European Commission, owners and managers of large enterprises have expressed skepticism rather than trust in the euro currency. And this statement, argued by the quoted author Bertrand Martinot, himself a senior EU official, was made in 2003, when at least the general perception of the euro was enthusiastic. Or maybe they just wanted to arise this perception among the public opinion? Academic debates of that period, supported by economists from all political and economic horizons, Nobel Prize winners, financiers of central banks, manifested serious reservations about the single currency. On the other hand, international financial organizations like the OECD, IMF, did not show excessive enthusiasm either, but were rather reserved. Until the launch of the single currency on the 1st of January 1999, it can be said that no economist of great value had been a staunch supporter of this project. Also, there was an auspicious turmoil regarding the composition of EMU.

The qualification of Italy and Spain in the "first wave" of the union was challenged, especially by Germany, the reason being the degradation of public finances and their strongly inflationary past. At the beginning they wanted only a "small monetary union" made of Germany, France and Benelux. This attitude, if not hostile, at least from Germany towards certain countries, reached a peak in February 1998, when 150 German professors representing the academic elite of the country, signed an appeal for the postponement of the monetary union under the pretext that some countries did not yet meet the Maastricht convergence criteria, except in appearance.

In front of such a large avalanche of criticism and suspicion, policymakers have adopted the best solution for the public opinion to be in favor of single currency: it was depicted as an image of an essential "technical" reform (i.e., not political), mandatory consequence of the existence of a single market and especially as an enhancer in improving economic performance. However, criticism regarding the single European currency had accompanied it from birth until now, that it can even be grouped in two dominant directions: *fundamental criticism and pragmatic criticism* (Martinot, 2003, p. 23).

A first group of *fundamental criticism* comes from the direction of Anglo-Saxon economists who may be classified as ultra-liberal. They also were reflected in the pages of the powerful financial press particularly the influential "The Economist" but also the "Wall Street Journal". These are joined by conservative economists grouped in specialized research institutes, like "Hoover Institute" (U.S.) and the British "Institute of Economic Affairs" and the "Bruges Club" (the city where, in 1988, Margaret Thatcher as the prime minister, delivered a speech against a European structure of supranational inspiration). Leaving aside excessive and totally unjustified criticism rooted in Mrs Thatcher's approaches, according to which the European construction is a Nazi-style project or that it expresses the will of France to impose its hegemony over Europe, these critics, especially in their technical aspects, deserve attention.

"Prime vocalist" in the chorus of critics was none other than the famous economist, Nobel Prize laureate in 1968, Milton Friedman. Ever since 1996, after the Madrid summit, he considered that a single currency is impossible because of political tensions (seemingly) insurmountable, which made its presence felt during the period when states were trying to approach the Maastricht criteria. For him, as for the supporters of his theories, the great economic difficulties, such as the collapse of the "European monetary snake" (EMS) in the early '90s, by no means were an argument for a monetary union, but just against it, "the monetary snake" being itself considered a true financial "heresy" because of the limits around which currencies could fluctuate. Critics argued that establishing the limits around which currencies may fluctuate was an absurdity as high as that of the fixed selling prices in competitive products sectors, for no public authority have the legitimacy to arbitrarily establish the exchange rates (parities) of the currencies. For adverse changes that may occur in the exchange of a currency is merely but a reflection of the errors that are committed in the real economy, financially speaking, be it a wrong economic policy, budget shortfalls, shortfalls in salaries costs, etc. Removing the possibility that such harmful practices in the real economy may naturally and rationally speak out regarding exchange, by blocking it around certain limits, it is as if you would remove these skidding measuring instrument.

In other words, the mechanism of the monetary snake acted similarly to a housewife who hide trash under the mat to create a semblance of cleanliness. In the case of a single currency, according to the same critics, it would meet the nefarious role to escape the consequences of their bad economic policies, of the Member states that commit such errors at the expense of other states (incidentally, both literally and figuratively, the case of Greece fully confirmed this view). In a "registry" less Euro-

skeptic, Samuel Brittan, the famous economic historian from the "Financial Times" said that the massive unemployment of the '90s was due not to the monetary disorder in 1980-1990 decade, just as to the overregulation of labor market. After the European Monetary Union (EMU) has become a reality, the same critics of the single currency turned their attention to political and economic "drifts" that might accompany it. According to them, EMU provides additional pressure on Eurozone members in favor of a legislative harmonization regarding taxation, labor and social protection, which increases the risk of extending the control of states on the economy, which could lead to a future centralized super-state. This however, critics argue, would reduce competition between national economic and social systems, the only one capable, according to their vision, of selecting and imposing the most effective economic policies.

The second type of criticism, *pragmatic criticisms*, was echoed favorably to most economists. They rely on "standard" economic theories and, unlike the first ones, are not based on the theory of the "minimal state", but on pragmatic cost-benefit ratio, in other words, of the disadvantages and advantages of the single currency. In terms of disadvantages, the professional reflex of economists is to think, a priori, that the introduction of a single currency on a fixed exchange rate (such as the European snake model) among European currencies "on the verge of suicide" (simply because they would disappear), it is rather dangerous. Fixing the exchange rate among the currencies of different countries subject to economic shocks, with different institutional realities, but with different development levels increases the risk - these critics consider - of growing economic instability and, on this basis, of unemployment. This kind of criticism is based on Keynesian theory, according to which the economy as a whole has to adjust "naturally", so without the intervention of state institutions, by the free fluctuation of prices and exchange rates. Fundamental relations in a market economy, between production, the rate of employment and wages, are reflected in the exchange rate, which should fluctuate freely. Keynes was even more emphatic in favor of free fluctuation of exchange rates when he openly and arguably pronounced himself against the "gold standard", which he considered a "barbarous relic" of monetarism, an obstacle to the free fluctuation of exchange rates instead. Keynes was a proponent of free exchange rate fluctuation to such an extent that, between maintaining the exchange rate or maintaining domestic price stability, he proposed, without reservation, the second option. At this point of the free fluctuation of the exchange rate, Keynes 's theory meets that of Friedman.

From the point of view of the economic benefits of the single currency, these economists located them especially at the level reduction of uncertainty and lower transaction costs in the single market, among partner countries that export and import between them, two-thirds of the volume of their external trade. A summary of the advantages that a single currency brought within the European Union Member States, considered the following: suppressing fluctuation of exchange rates and therefore risks that this fluctuation implied, then removing the main obstacle to the free movement of goods, services and capital, creating a large single financial market; providing European citizens a single monetary instrument, that can be used on this unified market. These advantages, difficult to be challenged as a whole, however, were flattened by other critics, such as Joseph Stiglitz, Nobel laureate in economics in 2001, who stated that European financial market realities in recent years (late second millennium and early third millennium) have considerably reduced the benefits that would have been offered by adopting a single currency in Europe.

### 3. Traditional approaches: Mundell Model

Most economists who have addressed the monetary union in terms of the advantages it offers, thought of it in terms of the "optimum currency areas" model, prepared by economist Robert A. Mundell, Nobel Prize laureate in economics, mainly just for their contribution this plan (Mundell 1968). Although up to Mundell, in economy there existed a commonplace assertion that monetary areas should coincide necessarily with national territories, the financier has demonstrated for the first time that it may be more efficient (optimal) to extend a same monetary area to a multinational ensemble. But for this, the conditions which would have had to be satisfied were very difficult. Specifically, four were the criteria that should be met for such an extension: *a high degree of homogeneity of the economic conditions in each country; flexibility in prices and wages; a high mobility of labor; the existence of the possibility of budget transfers between countries in the region*, as an automatic response to the difference of circumstance, especially if the first three criteria could be partially met.

If we were to apply these criteria to the EMU, and **start with the first one**, it is very difficult to admit that one can speak of "**economic homogeneity**", starting in Portugal to Finland and Greece to Germany. Under these conditions, a uniform interest rate, established by a supra-state monetary authority is very likely to be inappropriate for some of the states that make up the monetary union. Because for the countries with strong economic growth that witnesses inflationary trends, the unique interest may be too small, while for countries that are experiencing a slowdown in economic growth, it may be too high. On the other hand, the assumption that a single currency facilitating trade, will increase synchrony in national economies, has as the main counter-argument one of the most solid and proven theories of international trade. According to it, market integration leads to the of national economies tendency to specialization, on those sectors where they have a comparative advantage in terms of either resources or of the active population structure. These "major" would penalize particularly smaller countries, whose economies cannot possibly be very diverse, as is the case of big states.

As for the **second condition** laid down by Mundell, flexibility in prices and wages, one cannot say that it characterizes the Eurozone either. Even if wage moderation, during the first years of the implementation of the European Economic and Monetary Union, allowed the improvement of the unemployment situation, it cannot be considered a definitive problem solved, especially that wage flexibility is more a result of market price flexibility supplies and services. **As demonstrated by the reality of the United States**, the heterogeneity of its various states economic situation as well as a certain rigidity of wages and prices cannot be an obstacle to the existence of an optimum currency area, if they are offset by strong mobility workforce. But if in the U.S. this high mobility is at its highest peak, interstate workforce migration being extremely present (annually, ca. 8 million people, representing 3 % of the population moves from one state to another, mainly for economic reasons), it cannot be said the same thing about the Eurozone. This process of "spontaneous demographic rebalancing" between the various federal states, is not only very fast, but is basically balancing the needs of labor dictated by economic developments.

Compared to this situation, in the euro area workforce is almost immobile. Professional reasons immigration is an almost marginal phenomenon, involving less than 1% of the employed population, and covers, in particular, the highly skilled workforce and students. But imbalances in the labor market particularly involve the less skilled workforce. How necessary this phenomenon is demonstrated by the

opportunity, for Spain and Italy, of massive emigration of Romanians, despite some negative social phenomena. But Romania is not in the euro area, so we can speak of labor migration between countries of the EMU, and the fact that it has been tacitly encouraged by the executives of these states demonstrates how necessary it is. Moreover, workforce immobility is found even within the same country. Thus, although in northern Italy the unemployment rate was around 5 % in 2005, while in the south, it is of 21%, there was no significant influx of labor from south to north. Even in a small country like Belgium, the difference between the Flemish and the Walloon is from 7 to 17 %, also in terms of labor immobility. In the EMU, labor mobility is even lower than in the early twentieth century, when there were the first attempts of monetary union.

After seeing that the first three criteria that enable an optimal monetary union are imperfectly achieved, the fourth - the realization of automatic fiscal transfers between EU countries, gets particularly significant, but it is not feasible. For European markets are less flexible, prices and labor costs as well, and production factors are not likely to absorb economic shocks. It thus becomes essential for this role to be fulfilled by a mechanism of automatic budget reallocation between countries, which could reproduce redistribution mechanisms that occur between economic areas in the same country, when the different economic circumstances make it necessary. Thus, countries in an unfavorable economic situation could increase its public spending to stimulate economic growth, while countries that are experiencing a sustained economic growth could reduce their budget recipes. Such a mechanism, which would not even assume the existence of a centralized EU budget was supported in the 90s, by many European economists, without raising the expected echo among decision makers. The European Community budget, capped at 1.27% of the EU GDP, is used in 80% for the Common Agricultural Policy and the remainder for support of regional aid, but it does not even have the legal possibility to support loans to finance budget expenses increase. Situation that Greece is currently facing demonstrates precisely this necessity of budgetary transfers, but it also shows how little prepared the EU states are for such a situation.

In the United States of America, the 'automatic' budget stabilization mechanisms are functional. According to this mechanism, for each \$ 1 lost by the GDP of a state it is granted by another state, a compensation of 30 40 cents. This circumstantial stabilization ability has no counterpart in the euro area. Even in this situation, there are economists who, based on Mundell's criteria, assert that not even the U.S. do not satisfy all the conditions of an optimum currency area. However, it is obvious that no one might seriously think of a dissolution of the U.S. currency, which demonstrates that theories also have their shortcomings, and practice often goes ahead of theory. An approach, which can be called "evolutionary", of the euro area relative to the theoretical requirements of an optimal currency union would actually give a chance to the single currency. Under such an approach, we must leave time to talk and see to what extent the participating States will find or not the political arrangements that allow the proper functioning of the system. For there is no argument strong enough to not allow us to say that, in a longer or shorter institutional and economic common development, the euro area cannot become an "optimum currency area", at least reaching the level of that in the U.S.

#### **4. New approaches**

If addressed only in terms of economic benefits, the euro area gave rise, from the outset, to disputes that still exist, from a political perspective the situation is entirely in its favor, be it "seen" from the U.S., Germany or the UK. Thus, in 1977, Martin

Feldstein, American economist of high reputation, former adviser to President Reagan, and current advisor to President Obama, said that - "... ultimately, the need for the European Monetary Union will not be judged by its effects on unemployment and inflation, but especially in terms of its positive consequences on peace in Europe and beyond" (Martinot, 2003, p.35). Gary Becker, Nobel Prize winner for economics, was even more blunt in his statements - "From the purely economic point of view, the European Monetary Union is an error. But politically, if we consider the recent history of Europe, full of wars and other conflicts, it might be useful" (Martinot, 2003, p.35).

From Germany, by the voice of Helmut Schmidt, the political argument is still the dominant one - "Progress in European integration correspond to long-term strategic interests of Germany, to the extent that they allow to ensure peace and avoid the formation of a third coalition against Germany (Helmut Schmidt refers to the two anti-German coalition in World War I and II n.a) Compared to this key objective, all matters related to the technical details of the monetary union are of secondary importance" (Martinot, 2003, p.35). Across the English Channel, Tony Blair justifies Britain's refusal to join the monetary union by economic arguments that would make it difficult to associate - "... the government's intervention in economy, much lower than in continental Europe, the geographical direction of its external trade, the desynchronization of short term cycles compared to those of continental Europe (...) which shows that, technically (i.e he excluded the political factor), Britain's interest is not to be in the monetary union" (Martinot, 2003, p.36). This statement demonstrates that Britain's decision took into account the economic considerations, not the political ones.

From the point of view of the relation between the political and economic aspect or, rather, between the monetary union and political dissolution, the European single currency issue can take only one of two aspects: either, in the absence of greater political union, the monetary union will disappear, or under the pressure of monetary union, it will lead to a genuine political union system able to ensure the system survival.

But the extraordinary dynamic and often unpredictable of the political and economic life, relativizes even the strongest judgments, such as the previous one. Germany, where the view that a single currency was but a step further, however decisive in strengthening the European construction, the biggest supporter of the European currency which, by the voice of Hans Tietmeyer, considers it as the designer of "... a competitive Europe economically and politically united" (Martinot, 2003, p.39), is charged directly and firmly by billionaire George Soros that the decision to cut public spending by 80 billion euros by 2013, could destroy the European project, including by the collapse of the Eurozone. "If the Germans do not change their policy, their exit from the monetary union would be beneficial to the rest of Europe." – categorically said Soros, after the announcement made at the beginning of June, 2010 by German Chancellor Angela Merkel, on reducing public spending so that Germany's structural deficit to fall below the limits regulated by the European Union (Popescu, Mediafax). Such a statement of position towards the greatest supporter of the euro was unthinkable just a few weeks ago. George Soros has virtually addressed an informal invitation to Germany to leave the euro area, for he says: "... the Germans lead their neighbors to deflation, which threatens to cause a long phase of stagnation. And that leads to nationalism, social problems and xenophobia. Democracy itself could be threatened". More serious allegations cannot be imagined. However, they come to confirm those who believe that the common currency, in the absence of a common economic policy, may lead to European dissolution rather than to the strengthening of its unity. But what can it be done?

This question is not as rhetorical as it may seem at first sight, because it has found the answer with all the supporters of the single currency. And the answer, apparently, is simple: the competences of the European Union must be gradually increased, at the expense egotisms and national interests of the moment, even when the opponents (or just skeptics) of the monetary union would come up with the argument that the cart was put before the horse when a 'technical' decision (creating a single currency) was taken before extensive political cooperation. Such behavior can be easily explained if we consider that, unlike other European construction milestones, such as the Customs Union, Common Market and the successive enlargements, which have brought undeniable benefits and immediate creation of the single currency, has its full success ascribed to some political constructions still open. Only when finalizing this political construction, the single currency will be able to express its positive potentiality. And doubts do not refer to these potentials, which are hard to deny, but to the will to achieve just political constructs on which they depend. In these circumstances, an objective observer of the problem must do justice to skeptics also, who on the basis of the above state that the single currency may rather be a source of conflict (see the hardness in Soros's attack against the austerity measures suggested by Germany) than an automatic mechanism for integration leading to a deeper political unity. In this situation, there are two sources of political tensions that may arise (some have already appeared) in the "wake" of the euro. The first stems from the difficulty of achieving a uniform monetary policy of countries with such different economic situations that are far from achieving the optimum currency area criteria. For if, for example Mervyn King, Governor of the Central Bank of Britain, could take an anti-inflationary measure in the south, leading to an increase in unemployment in the north, without arousing the indignation of the people, such a measure in the euro area would be harder or not at all accepted, taken by Jean Claude Trichet, President of the European Central Bank (until 2011), even if it were to the general and long-term interest of all states in the region.

A second source of tension is more directly related to politics. It comes from the difficulty that European countries face in agreeing on the effects of the single currency has upon their economic policies as a whole, especially regarding the role of public authorities in the economy. Thus, most countries in the euro area have difficulties to agree on crucial topics such as the degree of independence of Central Banks, or the need to create a "European economic government". These differences, but also others, especially visible in the most powerful states in the region - Germany and France - cannot even be misunderstood as long as they come from economic and social cultures of greater tradition, and profoundly different. And this, all the more so that is based on antagonistic conceptions of the role of money in the economy. In a country like Germany, where social consensus on the rules of the market economy is very strong, where the social partners are accustomed to consider the macroeconomic consequences of their claims, the existence of a fully independent National Bank, imposing strict rules of price evolution is therefore as natural as possible and, therefore, accepted. The German Central Bank guides the decisions on establishing prices and wages only by sovereignly decided monetary rules, for each year. It thus becomes a pole of the "culture of stability" which, as German elites believe, is the origin of their country's economic success. In contrast, in a country like France, where social dialogue is weak and where corporate union claims are often unreasonable in relation to the general, a mild unpredicted inflation, which tends to limit the growth of real wages, is considered by the central bank as a positive development, even if in this way it turns aside from its central objective of maintaining price stability. These differences in perceptions upon the role of the central bank - independent and strong in



Germany, subject to political decisions in France - were also transferred on disputes related to the tasks of the European Central Bank and its relations with the European Council. Obviously, in turn, these disputes have also expanded upon the role of the state in the economy, none of the countries agreeing with the Anglo-Saxon concept of economy that fully adjusts itself, of the spontaneous market artifice that may lead to the economic and social optimum.

France, although it wanted to establish a "pole" of an European economic "government" at the Monetary Union level – being consistent to its policy regarding the role of the state in the economy - an idea firmly rejected by Germany and Britain, sought however, to obtain political preeminence over economy with the Maastricht negotiations, but agreed with the absolute independence of the European Central Bank. Germany, despite French and British views, believes that social negotiations held with strong and centralized trade unions, are essential to the proper functioning of the economy. Trying to transpose such a practice at the Community level, the German Presidency of the European Union tried, in December 1999 at the European Council meeting in Cologne, to organize a biennial "macroeconomic" dialogue, consisting of meetings at a technical and political level between business and union leaders in order to achieve a unique approach to issues regarding economic development and salaries. A kind of structure of the "stability culture" in Germany, implemented at the European level, an initiative that actually failed, most likely also because of the cultural and social disparities between countries. France still tried to create a structure meant to coordinate economic policy at EU level, but due to the insistence of the Germans it is not provided in any treaty and they gather only outside sessions of the ministers of finance councils and do not have any power decision. France would like this structure to be the embryo of a future "economic government" countered to the decisional power of ECB, which may be able to determine a common monetary policy, inserted in all economic policies. After an attempt to impose the name of this structure - "the Euro Council", blocked by Germany which it considered too aggressive against the ECB, it was termed more "peaceful" - "Euro 11", so that finally it became "Eurogroupe". However, in the second half of the year 2000, when France took over the presidency of the European Union, one of its clearly stated priority objectives was to " ... *give a role and increased visibility to this court (Eurogroupe, n.a) which will have to attend ECB in its political choices*".

From this point of view, even if this goal is not reached, the will of France to create an "economic government" seems to be in contradiction with its refusal to a federal European integration, as proposed by the former German Minister of Foreign Affairs, Joschka Fischer in May 2001, during a speech at the "Humboldt" University. And economic logic supports his proposal, as it is impossible to conceive an "economic government" without their own funds. Continuing this reasoning, the federal budget should have been developed in Brussels by federal institutions and voted by the European Parliament. Or, opposing such a reason, the assumption that France wants such an "economic government" in order to restrict the independence of the ECB just does not seem at all exaggerated or malicious. It seems, therefore, that the single currency and its consequences cannot be reduced only to the question of the relationship between costs and benefits, but, as shown by André Orléan, a famous French economist - "... *it (the single currency, n.a) mobilizes beliefs and values through which it is stated the belonging to a community*" (Orléan, Aglietta 1998). On a higher level of such a meaning, itself being beyond the strictly economist or financier approach, lies Romano Prodi's approach who, in a speech delivered in Munich in April 2001, states that - "... *purchasing every day with the same money, in 12 different countries (that was the number of countries in the euro area at the time, n.a), it will*

*make people more aware that they are European citizens*" (Romano Prodi). In other words, the single currency is only "supplement of soul" to the European Union of merchants and bankers, it is the only concrete way that every day millions of European citizens are aware of their membership of this new citizenship, the European citizenship.

Of course, the above assertion is not shared by all those who opine on the issue, especially if they are criticizing the single currency. Thus, they consider it naive to attribute a 'magic' character to a coin which, by its mere possession and use, may form a common European identity. And this all the more so as the design of banknotes - *"fleshless, even sterilized - but the aesthetic expression of what is called "politically correct"* (Orléan, 2003, p. 35), is dull and without symbols leading to the idea of Europeanism. For European leaders have tried, and it seems that they did not even proposed that, as it used to appear on most national banknotes, to make a large selection of historical figures of European science and culture - Goethe, Mozart, Leonardo da Vinci, Rubens, Descartes, Cervantes, Newton, Beethoven, etc.. - that could be represented on the euro banknotes, giving them a much greater value of European symbol, for the hundreds of millions of users inclusively.

On a purely theoretical level, the European Monetary Union is a delicate compromise between the two monetarist views who clashed over the entire history of economic doctrines. The first is that which considers money as the main "engine" of the development of trade (liberal view), while the second considers currency only an instrument in the service of political power (interventionist conception). This fundamental divergence of views on the role of the currency is evident and irreconcilable regarding the monopoly of currency issuing. If the first approach considers that currency should be a creative 'spontaneous' interaction between banking and trade systems, which would lead to a "money market", the latter advocates a single currency, whose issuing is the monopoly of a unique bank.

Friedrich Hayek, foremost representative of liberalism, regards the central bank as a genuine decline in economic policies. In his view, the ECB creation makes it impossible for the management of the European monetary system to function and be managed healthily. In 1960, 14 years before receiving the Nobel Prize for economics, the Austrian economist stated that *"... nothing can be more urgent than the collapse of the unholy marriage between the monetary and budgetary policies, marriages which for a good period of time were clandestine, but formally established by the victory of the Keynesian economy"* (Hayek, 1994). Based on such a premise, Hayek proposed the "denationalization of currencies", but not by delegating their management to some central banks completely independent of the state, but in the way of privatizing this management in the purest competition style. As a result, any private trader should be empowered to issue currency at a fixed market interest, and only creditors should be the ones to accept it or not as payment. In this way, the state will no longer have the opportunity, through its unique currency, to put pressure on economic agents, thus "monetizing" its debts. While it would be wrong to consider this an absolutely utopian theory, in terms of achieving its potentiality - considers Bertrand Martinot (Martinot, 2003) - from the point of view of the "public good" that is associated with the idea of monetary stability, it is fully justified the policy that claims that money management be entrusted to a public institution that may not be likely to be influenced by private interests.

However, a "sweetened" version of Hayek's theory that preserves his idea of submitting currencies to competition drew the attention of the political factor as well, in the late '80s. At the time, the very influential "Committee for the Monetary Union in Europe", founded in 1986 by Valéry Giscard d'Estaing and Helmut Schmidt, which

gathered influential politicians with big businessmen, predicted the development of the "ECU fashion" - common but not unique currency - that would circulate in competition with national currencies. The success of the common currency was to be secured "organically" by its use by national states in budget elaboration, but also by large companies. Across the English Channel, the British government of John Major proposed, in 1990, the continued use of their national currencies competitively by the European countries. Following this "natural" selection process there was supposed to emerge victorious a single national currency - called the "hard ECU" according to the British proposal, which would thus become the true single European currency, as a result of a competitive process and not of a political decision. Analysts believe, however, that the British proposal was not even had sufficient domestic support, otherwise, after the introduction of the single currency - the euro, being consistent on such an approach, conservatives would have had to register in their government program the competition set of pound currency against the euro which, after the launch of this proposal, never happened. The leading proponent of this theory, representative of the economists, not politicians, was the American conservative economist Gary Becker, Nobel Laureate in 1992. He proposed that all EU national currencies have the right of free circulation in any other country. *"Set the central banks into competition"* - Becker asked European politicians. *"Who is to select the best currency of all? It is exactly this thing that competition will do for you."* But such an approach involving a competition between central banks to support their own currencies, as the Bundesbank reacted immediately, would considerably diverge them from their fundamental purpose - the concern for prices stability, to the detriment of concern for providing best exchange rates for currency. For this reason, and also because most policy makers saw the German mark as the favorite of such a "competition" between currencies, this proposal for obtaining, in a "natural way", the future European single currency, was not treated seriously by the governments at the time. And so, the ECB found itself in the position of the creator of the European single currency for a heterogeneous European Union which was in process of expansion.

Taking as reference the theory of the Austrian Economic School founder, Carl Menger, who was a prominent monetarist with a rich practical experience as head of the commission responsible for changing the monetary system of the Austro-Hungarian Empire (1880), the euro currency, does not have all the features of a "good" currency. It is the result of a "constructivist" ideology (a term by which Hayek named the theories supporting the state government's intervention in economy), which states that political bodies, in the specific case of the single European currency - the governments and central banks, can and have to build social and economic rules that have not been validated by the market or practice. From here, of course, it is but a short step to saying that the Euro is a deeply political currency, as it is not the result of a natural and spontaneous social and economic process. In other words, it is a currency that was "made" not "born". In support of this conclusion it is also asserted that the euro has never been "tested" on the market before it was determined the exchange rate, was never in competition with national currencies that it substituted (so you cannot demonstrate, through practical experience and not on paper, that it is more stable than these), and its predecessor - the ECU was a semi-failure, since it managed to impose on European bond markets. Also, the parity of national currencies was, irrevocably fixed, only based on the mechanism of the "European Monetary Snake" (European snake), which itself is nothing but a construction more or less arbitrary, carried out by the governments involved. Going further, proponents of this theory state that the introduction of the euro issuing is a political decision that does not correspond to a real social and spontaneous demand (Martinot, 2003, p. 51).

Of course, if we are now talking about a "euro area" in the European Union, the trend is that, in a time interval that can be estimated, the "euro area" means, in fact, the entire European Union. In this context, considerable efforts for convergence are needed from each Member State in order to create an enabling environment for price stability in Europe. National economic policies have contributed to similar economic conditions throughout the euro area. Smooth introduction of the euro currency has been possible due to the convergence of basic economic characteristics of the countries concerned in the best reference values. The convergence of Eurozone economies will continue, for example, by reducing inflation differentials between countries. This will facilitate the objective of monetary policy, which is to maintain a stable price level in the euro area, thereby contributing to inflationary growth. Looking ahead, EU member states that will adopt the euro in the future, have to ensure the convergence of their economies with the euro area economy.

## 5. Conclusions

Europe's answer to the financial crisis that began in 2007 in the United States and was "exported" then in Europe was different, depending on the position of each European country in the EU or in relation to the EU. Despite the individualism of each EU member state, most available solutions to end the crisis were of European origin. On this occasion it was noted the fact that Eurozone countries have confronted the crisis easier than those that have their own currencies. The euro area countries reply to the financial crisis of extreme gravity, which is currently affecting Greece (crisis which, it is important to note, is not due to the system, but to the financial indiscipline shown by the Greek state), is a proof that the single currency facilitates mutual support between the Member States. States unwilling to access the EU encountered major difficulties: Iceland has seen its currency lowered to a third and had to really fight inflation, Swiss franc experienced a 10% variation in a few weeks and Norway, which still has a "petro-currency", as well. States that are not yet integrated in the EU, Serbia, Croatia, Bosnia-Herzegovina and Ukraine had to face serious problems, while Montenegro has adopted the euro by a tacit agreement, felt very little effects of the crisis. Denmark, Sweden and the UK, countries that did not want to adopt the euro currency as they wanted to protect their national currencies, practiced increasing interest rates and European countries that have not yet qualified for the Eurozone, saw their currencies attacked by the danger of inflation, but also benefited from the support of the euro area countries.

Specifically speaking, the following five positive consequences of adopting the single European currency were systematized (Barthalon, Bilbac, Ernst, 2009, p. 120-164):

✓ *the increase of the economic performance of the countries in the European Union.* Interests on bank loans, considerably lower after the creation of the single currency, contributed particularly to the dynamisation of economies of the euro area. The economic growth of countries in this area until the onset of the crisis, was higher than U.S. growth (2.9% versus 2.8 in 2006, 2.7 % versus 2% in 2007, 1.1 % versus 1% in 2008) and during the years of crisis, negative effects were smaller (-2.5 % compared to 2.6 % in 2009) . In the first quarter of 2008, when the crisis had already begun in the United States, the euro area exports rose by 0.8 %, despite the increase in raw material prices, which still had a depressive effect on the business area. The effect of the U.S. financial crisis, inevitably, through the integration of financial markets, made itself directly visible in the "toxic" debts that, in the euro area countries, totaled approx. 300 billion euros, six times less than the amount of such debts in the United States.

Meanwhile, outside the euro area, Switzerland and the UK, but also in European tax havens (Andorra, Cyprus, Malta, Monaco) there were "on hold" more than 500 billion euros stuck mainly by the psychic effects of the crisis that intensified fear of the risks involved in any investment. Unification of the European internal market in 1993, was completed by creating a single currency favoring free competition in a market of nearly 500 million inhabitants. Another positive effect was that, since the creation of the single currency, the average unemployment rate in the euro area fell by 2.5%, from 9.7% to 7.2%. Despite the unfavorable international context, the unemployment rate continued to remain low in the first year of the crisis (7.3%) until the autumn of 2008, when the negative effects of the crisis worsened and unemployment reached 8.5% in early 2009. Since 1998, when the euro was created, throughout the European Union there have been added approx. 18 million employees that partially derived from the accession of new member states, most of them being new jobs. In 2008, the total number of employees was over 218.5 million;

✓ *the increase of the population's income volume* is another effect of the introduction of the single currency, obvious result of the economic growth and monetary stability. Stability of the euro currency has made possible an increase in purchasing power considerably greater than in the dollar area (the U.S., Persian Gulf, Latin America, Canada, etc.). Some analysts estimated that for equivalent activities, salaries in the euro area are higher by 40% than those in the dollar area. Increasing purchasing power of the Europeans was also manifested by the fact that in 2008 the number of European tourists who traveled to the United States and in other countries in the dollar area increased considerably, while the number of American tourists visiting Europe decreased. Also, we are witnessing the process of cheaper imports to the EU, but stronger in the euro area;

✓ *exports to the emerging countries.* Exports on these markets were encouraged by the stability that the euro has had in relation to the national currencies. As a result, the balance of payments of the EU states, both in the commercial side and the current account one, remained balanced even in the more special situation resulting from the increase in commodity prices since the beginning of 2008;

✓ *balance of payments deficits and public debt remain within reasonable limits.* The problem of government deficits and public debt was permanently subject to public debate in the European Union, due to differences in attitude of the European countries towards this issue, and that rigorously divides them into very rigorous states and more "careless" states. The crisis in Greece, followed by Ireland, is the clearest and toughest example of "negligence" in tackling the public debt and public deficit. Measured by the Eurostate and monitored by the European Commission, public deficits and debts are subject to special consideration. The general trend in the euro area is to reduce public deficits and public debt, with few exceptions, including France and Spain. The situation of Greece and Ireland, to which may be added Portugal, led to measures to avoid similar problems. Until the crisis rise, government deficit in the euro area dropped steadily from 2.9% in 2004 to 0.6% in 2007 and public debt from 69.5 % in 2004 to 66.3% in 2007. Of course, the financial crisis disrupted this trend. Some European analysts, given the growing needs of public spending on education, environment, health, etc. recommends avoiding the combat of tax havens which stimulates 'legal' bypass from paying taxes

✓ *euro became an internationally traded currency.* As stated in the previous paragraphs, the euro became the second world currency after the dollar. Already in Europe and in the countries of North Africa, the euro virtually replaced the dollar. Its expansion to the entire planet was favored by exports of the EU countries, including the most dynamic emerging countries, the expansion of tourism, but also transfers of

large sums of money to their home countries by migrants, particularly Africans and Asians working in Europe (amount estimated at approx. 200 billion euros per year). Its stability was perhaps the strongest argument in favor of the confidence that the euro enjoys anywhere in the world. However, there are few true "redoubts" of the dollar in just the 'heart' of the European Union. One of these is aviation industry where airplanes, although produced in Europe, are sold outside Europe at prices set in dollars. The latter is represented by the hydrocarbon and the raw material industry. Their quotations and trading are done in dollars and as a result, much of the chemical industry works, in the financial and accounting departments, in dollars. To establish euro in this sector also, the first step - already envisaged by the European Union - is to establish quotations in euros and then to evaluate and pay transactions of this type, in euro, first in relations with Russia, then with African countries and the Persian Gulf. Interesting to note that in order to strengthen the euro movement, in addition to adhesion of Great Britain and Northern states to the euro area, and abandonment by the Gulf States of the system by which the national currency has a fixed exchange rate against the dollar and fluctuates with it, some French economists also add the hastening of integration in the euro area of the largest countries in Eastern Europe: Poland and Romania, "... followed by the smaller ones" (Barthalon, Bilbac, Ernst, 2009, p. 136). Despite the rise of the euro as currency with worldwide reference and circulation, the dollar remains the world's first motto in international trade market. Outside Europe, the dollar continues to be the "pivot currency" in financial transactions. The question is: *for how long?*

So what will be the future of the euro currency? Although it is difficult to give an answer with a high degree of certainty, a phrase seems to have a really great truth value, at least because it was uttered by the current leader of the most powerful state in the Eurozone, Angela Merkel: "*If the euro will fail, Europe will fail*" (Bâtcă, 2010). As long as Germany's position is this one (it also belongs to other states, but no leader has expressed it with such clarity and force) the European Union and the euro appear to have a common future.

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