

Whither the Euro: Challenges of the Crisis

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Abstract. *Visions and assessments, both optimistic and pessimistic on the evolution of the euro and the euro area continued to be expressed since its genesis. They come from independent persons, valued for quality expertise to date. The durability will be trying to express their considerations.*

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1. Optimistic view: dominant?

Strongly supported by the authorities of European countries, the euro managed to generate confidence that we recommend so reserve currency. This is supported by the fact that, directly or indirectly, the euro is the currency of 41 countries, as follows: 17 European countries; Four micro-states (Andorra, Monaco, San Marino, Vatican) that have adopted the euro from the outset; two European countries (Montenegro and Kosovo), which adopted the euro in specific circumstances; 19 countries in Africa and the Pacific, whose currencies maintain a fixed currency euro bond, as quoted in relation to it. Of course these latter countries have historical links with Europe, namely France, the colonies were carer, but remaining in the euro area of influence based on macroeconomic stability that gave them a link to the euro yet. In the more than ten years of existence, both in relation to the currencies of EU countries that have not adopted the euro and those that are not in the EU, the euro was characterized by a relative stability of the exchange rate, except represented by the pound to devalue suddenly and brutally, in late 2007 and early 2008, with 16% to stabilize at a rate of £ 0.79 for € 1. Housing crisis, banking and financial hit Britain stronger, especially for the rate of household indebtedness to banks was considerably higher than in the rest of Europe. This was the main reason that forced the government to allow the pound to devalue. There was even a devaluation to parity with the euro, at which, as some have speculated financiers (Barthalon, O.; Bilbac, I.; Ernst C.), which would allow a smooth transition and no problems other European countries in the single currency.

In relation to the currencies of countries in Eastern Europe or States or abroad, the euro stood, in general, stability, although, due to increased economic performance of these countries, there was a trend of upgrading national currencies to the euro. This happened because refinancing states' budgets are made in euro, devaluation of national currencies would be amplified, actually, the amount of debt relative to national currencies. The financial crisis has reversed the ratio to a slight devaluation against the euro. The Romanian leu has seen the same trend. In the course of 3780, in 2003, experienced a constant upgrading to a maximum of 3.1340 in January 2005 to mark then a severe devaluation, reaching 4.3688 lei per euro in August 2010. As about euro in the actual crisis, the report presented by Thomas Delapina at its 450th plenary session of the European Economic and Social Committee of 14 to 15 January 2009, states that: "...even if the initial crisis was purely American (USA) because of global connections, the European economy was also affected. In this context, the euro has

*shown the anchor of stability. Without the euro, the effects on national economies would have been much worse.”*¹ From the foregoing, it emerges clearly that the euro has established itself in Europe beyond the European Union. Moreover, global vocation states increasingly stronger because of trade with other countries of the world. The reference currency basket of Australia, Canada, New Zealand and Israel euro accounts for 28%. The most populous countries, namely, China, India, Brazil, Nigeria and Colombia, and other emerging countries² whose economies have grown considerably in the last decade are the customers and suppliers of European countries and their currencies have experienced better stability against the euro. Following these developments, the euro became the reserve currency for central banks, its share increasing from 20% at the end of 2003 to 28% at the end of 2008, while during the same period, the share of dollar reduced from 66% to 61%. The prestigious economist, Alan Greenspan, chairman of the Federal Reserve between 1987-2006 warning even that is possible in a medium time horizon, the euro replace the dollar from its first global currency reserves of central banks (Greenspan, A.). We do not know if this prediction was made honestly or more as a challenge to the American political elite in order to prevent such a development money (do not forget that the same Alan Greenspan was the first to predict that the end of 2007, the American economy will go into recession), but an objective analysis of the currency baskets of various countries demonstrates an “appetite” rising against the euro. The Central Bank of Russia which had, in 2008, the foreign exchange reserves of approx. 400 billion, set the euro currency basket share based on the ruble which is set to be 45%. One of the reasons was the fact that 70% of Russia's trade with the euro area menus, or whose currency is pegged to the Euro. Central Bank of China, whose foreign exchange reserves are estimated at approx. Billion in 1400, although keep secret currency basket structure by fluctuating yuan, according to expert judgment, booked a minimum of 25% of the euro. Detaching the yuan to the dollar on July 22, 2005, led to a revaluation of the Chinese currency against the dollar which continued in the following years. In the Gulf countries, which seem to prepare for a single currency, the euro has a share of at least 20% in the structure of foreign exchange reserves. Another group of countries - Syria, Iran and North Korea, which, for political reasons, has dropped the dollar as the reference currency, have adopted the euro for foreign trade. In conclusion of the above, we can say that the euro has the ability to generate stable and reliable in terms of trade and financial crisis.

Note the fact that, in order to strengthen the international position of the euro, and especially to help European countries in an emergency tax on 9 May 2010, euro area Member States have decided to create a new organization Europe – “European

¹The report presented by Thomas Delapina at its 450th plenary session of the European Economic and Social Committee of 14 to 15 January 2009, par. 4.1, www.eur-lex.europa.eu/Notice.do?

² The notion of “emerging countries” was used for the first time in 1981 by Antoine van Agtmael, Dutch economist who called such a group of countries that are not part of the ranks of developed countries, but knowing a strong growth and thus provides good business opportunities. South Korea and Singapore which, at the time, were part of the emerging markets, are now included among the developed countries. Of these states, most economists believe that four will influence the strongest global economy, which are Brazil, Russia, India and China, the group that was created the acronym “BRIC”. Other economists associated with this group and South Africa (BRICS), or Mexico (BRICM). As “E7” known BRIC group of emerging countries, plus Mexico, Turkey and Indonesia. In early 2010, PricewaterhouseCoppers predicted that 2020 will exceed the group E7 G7 GDP, the most developed countries. Currently, G7 GDP is only 35% higher than the group E7, while ten years ago was two times higher.

Financial Stability Facility” (EFSF), which has provided a bailout fund worth 440 billion euros. Headquartered in Luxembourg, the new institution has already proved in the case of Greece, Ireland and Portugal, coordinated by the German economist Klaus Regling.

2. But the pessimistic one?

Perhaps the most critical and pessimistic about the future position making euro, and perhaps the most to be reckoned with in terms of scientific quality authors - even if they are known for their skepticism towards the European currency - Eloi Laurent and Jacques Cacheux belongs to them Cacheux which, under the title “The euro: no future?” (Éloi, L.; Le Cacheux, J.) published a study in the journal of Research Center in Economy of Political Sciences (Éloi, L.; Le Cacheux, J.).³ The article aroused great interest, and some concern was taken by all the major news agencies. The study is preceded by a warning as possible of firm and clear: “Like a teenager, euro is unfortunately a suspended coin. It also has a few years ago – two or three - to demonstrate viability. If you do not take advantage of this period to achieve profound institutional reforms, there is no doubt that the eurozone will break under the weight of its own contradictions, triggering a global crisis much more violent than in the fall of 2008. We find that none of the measures available today on the work of the European Union does not have the ability to adjust the competitiveness problems of member countries and improve their growth prospects. Without mutual cooperation mechanisms - advantageous only increase discipline lacks credibility. We propose therefore to establish a “sustainable federalism” structured on three pillars: increasing macroeconomic discipline, not only in terms of deficits, as well as public and private debt; penalize states that do not comply with the common rules through a surcharge to be paid to the Community budget; orientation of European budgetary funds, the strategy “Europe 2020”, the great plan of converting economies of the southern and eastern Europe, to make them competitive” (Éloi, L.; Le Cacheux, J.).

Firmness and hardness tone of this study, especially since it comes from an area where the realities of Economy and Finance European countries seems to be well known and understood and objectively, is likely to arouse concern. *“At the time of “American” financial crisis - that Europe is felt roundabout - caused a European political crisis unprecedented since the very existence of the euro is not a certainty, the first step is to denounce the great lucid intellectual anesthesia European integration has fell victim to the entry into force of the Treaty of Maastricht. No European economic policy institutions, built wrong and wrong used are not effective! No, the performance of European countries, from the installation of the monetary integration process, not good nor convergent! No, the European response to the crisis, late, rough and limpness can not bring us peace!”* (Éloi, L.; Le Cacheux, J.) state the authors. Greek crisis, which nobody and nothing anticipate was the one who pulled the veil of “Good economic governance” that covered the reality and it was Europeans feel that they have overcome the crisis.

By following this veil, the authors make a critical analysis of measures have been taken to date to protect the area and the euro. The European Stability Fund (ESF), established as a result of the eurogroup meeting on June 7, 2010, could

³Centre de recherche en économie de Sciences Po is a university institute studies and forecasts and assessments of public policies. In it operates 40 French and foreign researchers, to which are added, as “Research Associate” several specialists in France and abroad, of which three are Nobel laureates. The institution is run by Jean-Paul Fitoussi, professor at the Institute of Political Studies in Paris.

constitute a guarantee for the debt of a member state in case of need and to avoid situations of illiquidity. Under pressure from Germany, however, each state is employed than its share of participation in guarantees offered by FES. "What kind of European solidarity is this? - say the authors. It seems that they are right, because, according to this model, each state is integral to... Eurozone itself and, moreover, to express "solidarity" is necessary the IMF agreement too. In addition, say the authors, FES can not solve the problems the euro area is experiencing imbalances, but only solving the immediate problems related to liquidity, only provide a reserve of time that can possibly be enforced genuine reforms. In fact, the ESF is designed for a service life of 3-year time horizon in which the Commission considered that Member States may limit return to below 3% of GDP deficit as set out in the Stability Pact. Another problem of "European solidarity", analyzed by the authors, is the fact that financial markets, and a large number of commentators have divided the euro area in the "crickets" and "ants". "Ants" are countries whose strong economic fundamentals gives them credible prospect of a return to normality, while the "crickets" whose economies were, until recently, the object of admiration, now suffer from economic evils so deeply, that only draconian regime will put them on my feet.

But just belonging to an integrated currency area may incite national governments of the member countries to greater fiscal relaxation, threatening the stability and soundness of money that belongs to all. The economic and monetary community of destiny, invoked to impose budget rules governments, is ignored when it comes to exit strategies and order in public finances. In these cases, each state is strongly encouraged or even forced, by financial markets as European courts to make one "cleaning" in "yard" was. Eurozone undertake such an expensive vacuum coordinated. A fiscal consolidation policy taken simultaneously by all countries generates a context unfavorable growth, which contributes to distrust the power of financial markets. On the other hand, the austerity policies lead to lower domestic demand in the euro area, thus threatening public debt stabilization. Thus, countries that try, everyone for itself, acquire increased credibility, not simply record a departure, this time in the group, such a goal.

Structural weaknesses in the euro area is not limited to matters of public accounts. The crisis revealed a persistent divergence between the economies of the Member States in terms of competitiveness. Thus, while Germany, in the early 2000s, pursued a policy of modernization and restructuring of its productive apparatus (especially the relocation to non-euro area EU countries), but also keeping wage costs in 2000, other euro area countries, not only in the South, and Ireland have assisted with relative passivity, the degradation of their competitiveness in a real "wage drift" caused by increases without support in a real increase in labor productivity. This trend present from the onset of the euro was reflected in the current balance, strong surplus for Germany, the Netherlands, Austria and strongly impaired the other euro area countries, especially in Greece, Spain and Portugal. These are problems that a potential "economic government of the euro area", worthy of the name should resolve absolutely impossible for "economic governance" developed at Maastricht (1992) and Amsterdam (1997) – state the authors. Sustained by France, but met with hostility by Germany, the idea of "economic governance of the euro area" is now on everybody's lips, including Angela Merkel, only meaning assigned to it are different. On the one hand, some countries see the "economic governance" strengthen budget discipline and possible macroeconomic and accelerate consolidation of public finances. On the other hand, the focus is on strengthening existing principles, the adoption of new rules more stringent and more severe penalties for infringements of the rules to discourage deviant behavior. The latter is part of the proposed optical constitutionalization national

budgetary rules, inspired by Germany's decision to join the Constitution has required a balance between the public accounts, and the strengthening of the Stability Pact, strongly evoked the last meeting of the Eurogroup. In the same spirit falls and the Commission proposal, approved by the Eurogroup, that before being submitted for approval to the national Parliaments, budgets are reviewed by the Commission and Council.

All this really "arsenal" intended to prevent "fiscal slippage" is perfectly justified future. But it does not guarantee that the eurozone can return to a better economic situation, the European authorities for committing the same mistakes as those that led to the Treaty of Maastricht: on the one hand, the emphasis on these rules of construction and budget year, without paying attention to other forms of economic policy coordination and, secondly, that polarize public attention to the hips, to the detriment of public debt stock, and other macroeconomic indicators such as private debt and competitiveness. Or, experience Ireland and Spain show that economic fragility can not be caused only a unhealthy management of public finances. In addition, the credibility of budget rules can be strengthened by increased penalties, as they eminently political character, as demonstrated by a relaxation of the Stability Pact in 2005. As national budget approval by the Commission and the Council, it will serve as a "discharge of responsibility" for national governments, if problems arise. "*Without a mutually beneficial mutual cooperation mechanism, reinforce lacks credibility.*" (Éloi, L.; Le Cacheux, J.), state the authors.

The current policy of the Eurogroup is based on two arguments. The first is historical and relates to the cases of Ireland and Denmark, in 1980, Sweden and Finland in 1990, and Canada in 1995, when the proper management of public finances generated out of the crisis and local economic growth. But, say the authors, the situation is not comparable because it was relatively small and open national economies. The second argument highlights the potential benefits of the depreciation of the euro by boosting exports. But given the fact that only 16% of the euro area trade is with countries outside the region, depreciation should be considered for the promotion of exports would, indeed, and growth, given the market contracting internal. In the same vein, a devaluation of the euro, given the differences in competitiveness between the eurozone economies would benefit Germany five times more than Greece, and three times more than Spain. The situation in the euro area a compromise between the imposition of hard budget constraint (in response to the demands of the Germans against the rules in the euro area) and tend to create an informal court of coordination of economic policies (in response to the ambitions expressed by the French Cooperation). Rejecting attitude of the Germans to extend such cooperation now has legitimacy conferred by the Constitutional Court in Karlsruhe, in June 2009, which severely limits the ability of the executive to engage in coordination of European economies.

What is still to be done? The two authors are not limited to demonstrating inability to self-preserve eurozone, but try to provide the solution and that could improve the situation and expressed in three words, it sounds like this: "A sustainable federalism". Intermediate objectives to be pursued European economic policy in the coming years should be: financial sustainability of debt and restore competitiveness to countries that have lost it, that is acquiring economic sustainability. Financial sustainability involves setting a maximum rate of public debt to a certain level, which should not have any connection to that threshold of 60% of GDP set arbitrarily at Maastricht. Perhaps a threshold of 100% of GDP would be more realistic, but only if the difference between the interest rate on public debt growth rate is negative (growth rate is higher). The ratio of financial and economic sustainability should be: to ensure

financial sustainability, economic sustainability must be ensured because only monetary policy, although it may influence the financing conditions of the public sector can not directly control the interest rate. This is the solution for countries with problems of competitiveness, unit labor costs now disabled too high and that the only solution for increasing labor productivity through ambitious policies aimed at education, increase innovation etc. This is exactly what these countries do not now focuses almost exclusively on cost reduction programs and reduce deficits.

As for the penalties to be applied to the states that do not comply with the rules established, they are very important as long as we speak of sovereign states and therefore their nature should be carefully and responsibly established. According to the Stability Pact, sanctions consist of financial penalties and fines. They do nothing but hit the states finances and so are poor, and are therefore unlikely to be complete. New penalties have been raised recently with respect to the exclusion from the eurozone, the suspension of voting rights, the withdrawal of European structural funds are even more wrong - say the authors - as even contrary objectives that it has proposed monetary union . To be effective, sanctions must be both penalty and incentives and, in any case, should not lead to removing the prospect of a return to steady growth and credibility. For recovery and strengthening of euro area economic and financial sustainability, with the inevitable penalties must be accompanied by common policies, such as discretionary, to promote economic growth in the euro area and at the same time, reducing the competitiveness disability most vulnerable countries. The authors suggest coupling these economic policies "Climate-energy package"⁴, meant to lead to the reduction of environmental pollution and dependence on fossil energy sources, developing alternative energy technologies. Firmly guiding budgetary means European and possibly European Investment Bank loans, to support conversion of European economies, especially countries in the South (less developed) - say the authors - the modes of production and lifestyles based less on non-renewable resources as that will solve all the problems of sustainability and financial and economic, and environmental sustainability. Thus, the southern states would be able to cancel the differences in competitiveness, and become true European and global centers of renewable energy production and the euro area will be able to reconnect to the future - concludes Eloi Laurent and Jacques Le Cacheux.

3. Conclusions

Visions and assessments, both optimistic and pessimistic on the evolution of the euro and the euro area continued to be expressed in the recent years. Especially the pessimistic came from independent persons, valued for quality expertise to date. The Douglas McWilliams, general manager of the Center for Economic and Business Research (CEBR)⁵ said earlier this year (2011) that there is one chance in five euro

⁴ "Climate-energy package" includes a package called "3 times 20" work based on the outcome of the United Nations Framework Convention on Climate Change, held in Bali in 2007, aims for 2020, compared with 2009, a reduction of 20 % of emissions of pollutants into the atmosphere, increasing energy efficiency by 20% and 20% increase in the share of non-conventional energy in the total energy production. After a year of negotiations, "package" was adopted on 28 December 2008. Through this "package", the European Union has established itself as a world leader in the fight against climate change.

⁵CEBR is an independent consulting company, founded in 1992, providing consulting services to companies (which include Siemens, Vodafone, Oracle, IBM UK, etc.), financial institutions, government departments, agencies and even the European Commission. Douglas McWilliams is the authoritative "voice" of his and decides on all important issues macroeconomic and macro.

area to survive over 10 years in its current form. Moreover, he said that in the short term if the euro collapses this year, then certainly he will depreciate significantly against the dollar (Toreanik, A.). In this forecast, McWilliams joins another personality very present in forecasts on the evolution of the global economy – Nouriel Roubini, professor at New York University's Stern School of Business (Toreanik, A.), on the publication "Foreign Policy Magazine" in its issue of November 2009, it ranks fourth in the "Top 100 global Thinkers." He says, no more, no less, that the current approach to the problems of the euro area (lack of solvency of countries is confounded by the lack of liquidity and continue lending policy) will make out of the weaker members of the euro area. John Taylor, chairman of FX Concepts, one of the largest hedge funds⁶, another pessimistic analyst, made the same statement: "Some countries might abandon the euro"⁷.

The "prophecy" of Roubini and Taylor received a quasi-confirmation, even faster than anyone would have imagined. On November 14, 2010, Lisbon diplomat, Luis Amaso, told the weekly *L'Espresso*, that: "The country needs a broad coalition to pass the current situation. Otherwise, the alternative would be, in the end, giving up the euro" (Dinu, C.). Portuguese official statement is a premiere, at least until the writing of these lines, and its importance is not the consequences that you did or not, but that was spoken, it was considered as an alternative to the crisis.

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⁶Hedge funds are investment trusts differ from normal by the following features: participation in the Fund is made from considerable amounts (most often, from \$ 1 million up); usually the funds are not regulated, which allows managers to use a variety of investment techniques that are not allowed for other types of funds, which makes the riskiness of these funds to be considerably higher, and earnings; in addition to the management fee, usually - 2%, fund managers can assign at least 20% of gross earnings over the previous set, which makes these people to be among the planet's wealth. The first hedge fund was set up in 1945 by an American sociologist... Alfred W. Jones, but which was also a financial journalist.

⁷ www.mediafax.ro, 3 decembrie, 2010.