The Euro and European Monetary Policy: A Critical View

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Abstract The fiat money production and European Union's monetary integration is considered to be a big leap in the integration process. The introduction of Euro and the centralization of fiat-money production by European Central Bank was considered to generate many benefits for Single Market, European citizens or business sector. Monetary integration and accession to Euro was linked to specific nominal convergence criteria and became compulsory for any new member. The history of Euro creation and adoption by majority of EU countries was not an easy one. The evolution of the Euro Zone after the introduction of a single currency was not merely positive. The introduction of the Euro was followed later by a significant enlargement, including Eastern European Countries (EEC), thus creating a European Union with "different speeds". The current bailouts of various banks exposed to the Greek or the Cyprus crisis and the constant quantitative easing that significantly expanded the existing broad money (denominated in Euro) emphasize the fiat money features of this currency and the tragedy of commons surrounding this important project for European Union.

The key points of the chapter are:

1. the evolution of the Common Monetary Policy at the level of the European Union;
2. the institutional framework of the European Monetary System;
3. the Euro features and its benefits for EU's stakeholders;
4. the challenges associated to the adoption of Euro by non-Euro countries;
5. the convergence problem in the Euro Currency Area today;
6. the need for more coordination between monetary and fiscal policy at the level of EU's members.

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1 Introduction

European Union is a unique multinational political initiative that includes an increasing number of countries having different stages of development. This project started immediately after the Second World War on the ruins of Europe and was promoted as a liberal project promoting some very strong values such as peace, prosperity and solidarity between countries that strongly fought against each other for decades, finally ruining themselves. In his declaration from 1950, Schuman clearly stated: *"... the setting up of this powerful productive unit, open to all countries willing to take part and bound ultimately to provide all the member countries with the basic elements of industrial production on the same terms, will lay a true foundation for their economic unification. This production will be offered to the world as a whole without distinction or exception, with the aim of contributing to raising living standards and to promoting peaceful achievements*". The removal of trade and investment barriers for specific sectors was the starting point of the whole integration process.

The European Union (EU) project developed gradually. Initially, EU started as a free trade area (FTA) only for some specific sectors, very sensitive and very affected by wars (coal and steel sectors in 1952 and later nuclear energy in 1957) and between only few countries (the six founders). The project created a third community in 1957 through the Treaty of Rome: European Economic Community (EEC). These three communities were, in fact, common sectorial markets that evolved towards the Single Market (1987) and later became the European Union (1992), using a single currency—the Euro (1999). The integration process was continuously developed by adding more and more common policies (e.g. common agriculture policy, common competition policy, common foreign security policy, common environment protection policy etc.), regulations and institutions (e.g. European Parliament, European Central Bank etc.) and by including new member states (Delivorias 2015).

The adoption of the Euro means the introduction of common monetary policy for member states. This new feature of European Union was urged by the monetary uncertainty generated by breakdown of the Bretton Woods Monetary System (created in 1944 and removed in 1971) that imposed a gold-dollar tie of all international currencies: the dollar was officially tied to gold and other currencies were flexible tied to the dollar (a narrow band with relaxed restrictions for further depreciation of local currencies was applied). The solutions to this breakdown were *the adoption of full convertibility* by majority of European currencies and *the setup of a new monetary regional arrangement*s that tied European currencies together in various ways (e.g. European 'snake', 'snake in the tunnel', ECU etc.) for increased monetary stability and for an increased monetary coordination. Secondly, the efforts to adopt the Euro and a common monetary policy were justified by the Single Market requirements (de Haan et al. 2015). Today, the Euro and its institutional framework is seen to be a very interesting experiment that generates some benefits and costs for the countries involved.

Monetary policy and its economic effects are the most difficult things to be explained for regular individuals. Money is not neutral to economy, deeply influencing the structure of production and the general level of prices. When specific measures are applied by monetary authorities, irreversible changes of the economic system are produced (see Hulsmann 2008 about the effects of fiat money production on the general structure of production and general level of prices). Therefore, *the soundness of money and monetary policy are vital for long term stability and a sustainable development of any group of countries commonly sharing a single currency*. The instability of any monetary arrangement is less linked to the natural imperfections of a currency area (e.g. the limited territorial labour force mobility) and more linked to the very relaxed production of money and credit conditions that undermine the credibility and the real purchasing power of a currency (either national or over-national fiat one) (see Baggus 2010).

2 A Brief History of the Euro and Common European Monetary Policy

The monetary cooperation between the European countries started in 1950 with the creation of European Union of Payments that supported its members to restore the convertibility of their currencies. The monetary integration was not set by the initial Treaty of Rome (1957). However, the initial integration initiatives included the creation of the European Fund and Multilateral System of Settlements (EFMSS) for providing "*contracting Parties with credit in order to aid them to withstand temporary balance of payments difficulties in cases where these difficulties endanger the maintenance of the level of their intra-European liberalisation measures and to facilitate the operations of the System of Settlements*" (European Yearbook 1955, p. 215). The fund had an initial value of 441.46 million units of account with a value of 0.888 grams of gold (around 392 tonnes of gold) and 123.54 million dollars paid by the American Government. As in the case of the Bretton Woods System, the creators of this financial facility missed to clearly define the term of 'balance of payments difficulties' letting a lot of space for arbitrarily interpretations of it.

The first step was the Memorandum of the European Commission from 1962 (the Marjolin Memorandum) that proposed for the first time the creation of an economic and monetary union between member states (a more advanced form of integration than the free trade area): "*the creation of a monetary union would become the third phase of Single Market*" (CEE Marjolin Memorandum 1962, article 138). The same initiative recognize the fragility of the Bretton Woods System and the need for the European Countries to enforce their capacities to face increasing global monetary tensions. The memorandum highlighted the potential general benefits for the European Community: "*the introduction of the European reserve currency will significantly facilitate international monetary cooperation and the reforms of the current system*" (Marjolin Memorandum, article

129). However, the memorandum did not clearly explain the features of this common currency and how this currency should be adopted by the member states. The mentions about the monetary union were too general and too vague at that time. As a result of this memorandum, in 1964 was created a Committee of Governors of the central banks of the member states of the European Economic Community in order to facilitate the monetary cooperation at the European level.

The next milestone was the Werner Report adopted in 1971 (soon before the collapse of the Bretton Woods Monetary System) that recognised the delays in terms of the four fundamental freedoms of the European Economic Community (capital, goods, persons and services). This report discussed in more detailes about the features of the monetary union: "*a monetary union implies inside its boundaries the total and irreversible convertibility of currencies, the elimination of margins of fluctuation in exchange rates, the irrevocable fixing of parity rates and the complete liberation of movements of capital*" (Werner Report 1970, p. 4). Since that moment, the report expressed the concerns regarding fiscal harmonizationat at the level of the member states (value added tax, excise duties and specific taxes applied on the capital transfers), the need for a common financial policy and potential distortions in competition. This report clarified the vision about the main features of further monetary union: "*the Community currencies will be assured of total and irreversible mutual convertibility free from fluctuations in rates and with immutable parity rates, or preferably they will be replaced by a sole Community currency; the creation of liquidity throughout the area and monetary and credit policy will be centralized; the monetary policy in relation to the outside world will be within the jurisdiction of the Community; the policies of the Member States as regards the capital market will be unified; the essential features of the whole of the public budgets, and in particular variations in their volume, the size of balances and the methods of financing or utilizing them, will be decided at the Community level and the regional and structural policies will no longer be exclusively within the jurisdiction of the member countries*" (Werner Report 1970, p. 5). However, the position of Germany (insisting on more economic convergence before the adoption of a single currency and on the idea that the monetary union should be the last stage of the whole economic integration process) and the position of France (insisting on more monetary cooperation, rejecting any proposal that would create any new European institution and rejecting the perspective of losing control on their national currency) were irreconcilable at that time. Finally, the plan was adopted and a 10 year schedule for achieving the monetary union was mentioned (by 1981).

According with the provisions of the Werner Plan and accelerated by the breakdown of the Bretton Woods System (august 1971) that highly increased the financial markets' volatility, the monetary integration process started with the European 'snake' system introduced in April 1972 (Basel Agreement) by all member states (nine members from 1973). The 'snake' was an exchange rate mechanism based on bilateral exchange rates kept almost rigid by central banks inside these narrow bands: initially all European currencies were placed in a narrow band of fluctuation against the dollar, of +/− 2.25%, imposed by the Smithsonian Agreement (the '*tunnel*' for European Currencies) and, simultaneously, placed in a

narrow band of fluctuation against each others, of +/− 2.25% (the '*snake*'). In 1973, the United States adopted the free exchange rate currency regime (no restrictions and artificial alteration of US dollar exchange rate by central bank). This decision lead to the collapse of the tunnel. After 1973, the exchange rate mechanism was based exclusively on the 'snake' (bilateral narrow bands). Additionally, the European Monetary Cooperation Fund (EMCF) was created, in order to provide the financial support for creating the monetary union. This system was very unstable and, in 1977, only 5 member states of the 9 continued to follow it (Germany, Belgium, Luxemburg, Denmark and Netherlands). The oil crisis of the '70s and the constant speculative attacks on the major European currencies significantly destabilized the monetary arrangements. The Werner Plan and all efforts to adopt the monetary union were out of schedule (Scheller 2004).

The collapse of the 'snake' and the reforms imposed by the Jamaica Agreements (1976) regarding the international financial system forced European member states to reconcile their positions and to move forward in their monetary integration efforts. The 'snake' mechanism was too complex. Therefore, a new exchange rate mechanism replaced the bilateral pivot rates with a currency basket adjusted daily called ECU (European Currency Unit) and firstly introduced on March 13th, 1979. The ECU was only a unit of account and was used for a better control of exchange rate fluctuations (Feenstra and Taylor 2016). Each European currency was included in the ECU in various proportions that changed every 5 years (e.g. the weights for the Deutsche Mark were: 32.98% in 1979, 32.08% in 1984 and 31.94% in 1988). The value of the ECU against the dollar was established as weighted average exchange rate of each national currency included in the basket against the US dollar (Zumaquero 2010).

The stages of the European Monetary Union were accelerated by the adoption of the Single European Act on February 1986 and the Delors Report submitted to the European Commission in May 1986. The Single European Act introduced some very important changes in the Treaty that enforced the achievement of a Single Market. This important act (in fact, this act amended the Treaty of Rome) did not include explicit provisions regarding the introduction of a single currency. The only monetary provisions referred to the European Monetary System and the ECU and to the obligations to consult the Monetary Committee and the Committee of Governors of the Central Banks: "*in order to ensure the convergence of economic and monetary policies which is necessary for the further development of the Community, Member States shall co-operate in accordance with the objectives of Article 104. In so doing, they shall take account of the experience acquired in co-operation within the framework of the European Monetary System (EMS) and in developing the ECU, and shall respect existing powers in this field*" (Single European Act 1987, Article 102a). Following the Single European Act and the Werner Plan, The Delors Report is the next milestone in the monetary integration. The report is important because it stated the need for independence of a new European Central Bank and recalled from the Werner Plan the three main conditions to achieve monetary union: "*(i) the assurance of total and irreversible convertibility of currencies; (ii) the complete liberalization of capital transactions and full*

integration of banking and other financial markets and (iii) the elimination of margins of fluctuation and the irrevocable locking of exchange rate parities" (Delors Report on EMU 1989, pp. 14–15). Despite the fact that the report did not mention a clear schedule for creating the monetary union (except for the starting point of stage one, set to begin no later than 1990), the political role in this particular case is recognized. Monetary union, as other integration features, is a political decision. The value of this report consists also in the identification of *three stages* associated to this process: *stage one* that consists in aiming "*at a greater convergence of economic performance through the strengthening of economic and monetary policy coordination within the existing institutional framework*" (including the preparation and ratification of a new Treaty); *stage two* supposing the setting of "*basic organs and structure of the economic and monetary union would be set up, involving both the revision of existing institutions and the establishment of new ones*" and *stage three* the member states will "*move to irrevocably locked exchange rates and the attribution to Community institutions of the full monetary and economic competences described in this Report. In the course of the final stage, the national currencies would eventually be replaced by a single Community currency*" (Delors Report on EMU 1989, p. 30, p. 33 and p. 35).

These stages started to be implemented in July 1990. The milestones in this implementation were: the ratification of the Maastricht Treaty on the European Union in February 1992; the creation of the European Monetary Institute in 1994, the signing of the Stability and Growth Pact in 1997 that established a set of common rules for a better coordination of EU members' fiscal policies and for pursuing sound public finances that would provide more financial stability; the creation of the European Central Bank (ECB) and the European System of Central Banks (ESCB) in July 1998.

The Euro currency started to be introduced in January 1999. This single currency was set to replace the local currencies of 11 countries (Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland that fulfilled the nominal convergence criteria at that moment; Greece introduced Euro in 2001 being the 12th member state to join the Eurozone). The replacement used a fixed conversion rate that was initially set by using the weights of those currencies in the ECU currency basket. These conversion rates were irrevocable. The process of replacing the local currencies with the Euro was finished in January 2002 and the European Central Bank was the sole legal tender for currency of Eurozone members and the responsible for their common monetary policy.

However, the introduction of Euro was not a peacefull process. Some countries strongly opposed this project or opted out with a special status: (i) the case of the United Kingdom that accepted to access the European Exchange Rate Mechanism II (ERM II) in 1990 (as the other 12 countries) but, after very strong speculative attacks on the pounds, decided in 1992 to not participate in this monetary arrangement and negotiated a special status in the Maastricht Treaty regarding this issue; (ii) the case of Sweden that joined the European Union in 1995, it participated in the ERM II but the referendum of 2003 rejected the adoption of the Euro by this country; (iii) the case of Denmark that initially participated to the European

Monetary System (including the 'snake') and that signed the Maastricht Treaty with a condition to keep an opt-out right for adoption of the Euro due in the 1992 referendum that rejected its introduction, that joined the ERM II in 1999 and that rejected again in 2000 the participation of this country to the single monetary area. Finally, we have the case of new members that acceded into the European Union after 2004 from Eastern European Countries. In this case there is no opt-out right for the Euro adoption that is compulsory for them (some of them already adopted the Euro a few years following the integration).

As we can see, the process of adoption of the Euro was very difficult, with many delays and hard negotiations between member states. Moreover, this common policy strongly divided the European Union and emphasized the divergences among the most powerful member states. Finally, we can see that all the Founders (the Six founding countries) strongly supported this initiative and, finally, adopted a common monetary policy and a single currency for them.

3 The EU's Common Monetary Policy and Its Institutional Framework

The European Monetary Union is the result of many political efforts to achieve a common vision on its main features. This currency area is not perfect and not optimal. The European Monetary Union means a set of institutions, specific monetary goals and specific monetary instruments created to provide high stability to a new created common currency with a symbolic name—the EURO. The Euro and its monetary system is a full convertible currency, is a fiat money without any monetary anchor to gold or other valuable assets, is not a natural money but a legal one based on a legal tender politically decided and defended. From this perspective, the transfer of monetary sovereignty to the supranational level is more politically than economically argued. When we replace several fiat currencies with a single one and when we replace several central banks with a single (common) one there are not so many economic arguments to be considered.

The current institutional framework of the Eurozone is very confusing, very bureaucratic and very difficult to be explained to regular people. The main responsibility of the monetary policy is assigned to *the first institutional layer of the EMU—the European System of Central Banks* (ESCB) that was created in 1998. The legal basis for this structure is the Maastricht Treaty and the Status on the European System of Central Banks and the European Central Bank. ESCB includes all the national central banks (NCBs) of the members of the European Union that are inside and outside of the Eurozone. The members that are outside the Eurozone have a different status within the ESCB: *countries with a derogation* (Sweden and the new member states since 2004 to present that did not adopt the Euro yet—Bulgaria, Croatia, Czech Republic, Hungary, Poland and Romania) and *countries with a special status* (the United Kingdom that rejected the Euro and

kept the opt-out right and Denmark that is in the ERM II but rejected the Euro adoption by referendum twice). The decision inside ESCB is carried out by the *Governing Council, the Executive Board and the General Council*. The Governing Council is composed by the ESCB Executive Board's members and the governors of the national banks of the countries that adopted the Euro. This structure is responsible *for the elaboration of the EU monetary policy features* and for *the guidelines to implement it by each member of the Eurozone*. The Executive Board of the ESCB is composed by a ESCB President, ESCB Vice-president and four independent members elected based on their recognized experience in the monetary field and this structure *is, in fact, responsible to implement the monetary policy at the level of the European Union* by giving specific tasks to national central banks (Nelsen and Stubb 2014). The *General Council of the ESCB* is composed by a President, Vice-president and all governors of the EU member states' central banks (30 members for EU 28 case). According with the ESCB status, the ESCB General Council *was assigned with the main tasks of former European Monetary Institute* (created in 1994): *to advice the structures of the European Central Bank*, a statistical function, to prepare the annual reports of the European Central Bank, to decide on the standardization of accounting and reporting procedures applied to the national central banks, specific attributions for ECB's capital subscriptions, to establish the conditions for employing people to the ECB and to prepare the conversion rate for countries with a derogation when these countries will decide to adopt the Euro (Olsen and McCormick 2016). ESCB includes also a number of *15 specific committees*: the Accounting and Monetary Income Committee, the Banking Supervision Committee, the Banknote Committee, the Committee on Cost Methodology, the Eurosystem/ESCB Communications Committee, the Eurosystem IT Steering Committee, the Information Technology Committee, the Internal Auditors Committee, the International Relations Committee, the Legal Committee, the Market Operations Committee, the Monetary Policy Committee, the Payment and Settlement Systems Committee, the Statistics Committee and the Budget Committee (Cini and Borragan 2016).

Because there are EU members with a different status on monetary integration, the ESCB was divided into *the Eurosystem* and the ESCB. Despite the fact that the Governing Council of the ESCB was entrusted to establish the the EU's common monetary policy and that the Executive Board of the ESCB was entrusted to implement the EU monetary policy, the ESCB *is not a monetary authority* and the ESCB *has no legal personality of its own*.

The Eurosystem is the *second institutional layer* of the EMU, including the national central banks of all the 19 countries that already adopted the Euro and the European Central Bank (ECB). In fact, the Eurosystem is the monetary authority at the level of the EU. *The Eurosystem is the European System of Central Banks of only those countries that adopted the Euro*. The Eurosystem is composed by only two decisional bodies of the ESCB: the Governing Council and the Executive Board of the ESCB where only those countries that already adopted Euro are accepted. Moreover, the Eurosystem includes the European Central Bank. According with the Statute of the ESCB and the ECB, the basic tasks of the

Eurosystem are: "*to define and implement the common monetary policy of the Eurozone; to conduct foreign exchange operations; to hold and manage the official foreign reserves of the euro zone Member States, and to promote the smooth operation of payment systems*" (European Commission 2008, Article 3). Additional tasks are referring to statistical data collection, financial stability or prudential supervising of banking institutions. We can easily observe that, due to political reasons, not a central bank (the European Central Bank) but a system (the Eurosystem) is carrying out the common monetary policy of the European Union. This is very confusing and could be a clear sign of dilution of the monetary authority that can undermine the response in case of a financial crisis.

The European Central Bank (ECB) *is the third institutional layer of the EMU*. The decision making bodies of this institutions are: the Executive Board, the Governing Council, the General Council and the Supervisory Board. For more confusion, the first three decision making bodies are the same with the bodies of the ESCB (the ESCB Executive Board is, in fact, the ECB Executive Board and so on). The last decision making body is referring to supervising operations on the activity of the European banking sector and it is composed by a Chair, Vice–chair (elected from one of the ECB Executive Board's members), four ECB representatives and national representatives of supervising structures from national central banks. A Steering Committee is preparing the meetings of this structure (McCormick 2015). The European Central Bank is the core of the European System of Central Banks (ESCB) and the Eurosystem (European System of Central Banks that adopted the Euro). The main objectives assigned to the European Central Bank are: a primary objective that is the *price stability of the Eurozone* initially defined as "*a year on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%*" and later changed into "*to maintain the inflation rate below, but close to, 2% over the medium term*" (Issing 2003, p. 46) and the second objective is *to support the general economic policies in the Union* (European Commission 2012, Article 127). A tertiary objective empowers the ECB to mandate the ESCB to "*contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system*" (Transparency International 2017, p. 39]. The European Central Bank was hardly recognized as an official institution of the European Union (2007 by the Treaty of Lisbon).

The national central banks of the EU member states are the *fourth layer of the EMU*. Unfortunately, the adoption of a common currency should consist in a transfer to a supra-national central bank of all functions but the decision was to create an European Central Bank and to keep in function existing national central banks (with minor limitations of their competences). National Central Banks (NCBs) are continuing to play o significant role in the Eurosystem including the following: (i) to execute the main open market operations; (ii) to hold minimum required reserves for deposits of commercial banks and (iii) to hold and to manage a portion of foreign reserves.

The European monetary system has a very complex and very bureaucratic structure with many layers that are interfering among them. The failure to dismantle

the national central banks and to entirely transfer the monetary policy to a supranational central bank is clear. This very complex structure is very confusing for regular EU citizen. The very bureaucratic structure is negatively influencing the credibility and the confidence in the transparency and accountability of such important institution (according with the last EU barometers, the confidence in ECB was constantly dropping in almost all Eurozone countries). The primary objective set to the European Central Bank is also questionable: the natural state of prices in an open economy is to be unstable due to existing and changing market conditions (demand and supply sides). The direct control/influences on prices by a central bank is very limited. Despite the two pillars used to achieve this prices' stability (economic analysis and monetary analysis performed on *full set of information* by ECB's Governing Council), the monetary decisions regarding how much liquidity should be available in the Eurozone at a specific time are very discretionary and very subjective (the set of information is never *full* or *complete* and there are severe limitations to predict the future based on past data as a basis for any sound monetary policy). Moreover, the crisis revealed the *problems with the independence* of the ECB from all economic operators (including the saved commercial banks from bankruptcy by fuelling them with cheap money).

4 The Benefits and Limitations of a Single Currency: A Concise Critical View

The credibility is very important for the institution of fiat money (Euro is a fiat money). One of the strongest debate surrounding this particular problem insists on the benefits to adopt a single currency instead of keeping the local ones at the level of European Union. The position of EU's monetary officials classifies the benefits for adopting Euro by looking to various potential stakeholders/users of this single currency: European consumers and the private companies. Some general benefits (such as those referring to the stability and growth of the whole European economic system, the benefits associated to the EU's Single Market, the benefits assigned to the European identity or to the EU's international relations) are also introduced in this particular discussion.

The EU's officials are claiming the following *benefits for EU's consumers* when the single currency is replacing the local ones: an increased market competitiveness; a reduced inflation; higher facilities to the borrowing of money; a decreasing of cost of traveling all over the European Union; more new jobs created; higher economic growth at the level of EU's countries and regions and, finally, more public investments (European Commission).

The adoption of Euro is submitted to increase the *market competitiveness* by an improved transparency of prices at the level of EU's member states. The denomination of market prices in the same currency is submitted to improve the comparability of such prices at the level of EU's consumers. But this benefit is only

partially true because the final price in specific place of EU cannot be so easily compared with the same price in a different location. The information about such prices is useless in this case and cannot contribute so much to an improvement in the competiveness of any operator or country. The final price of a good or service is depending on so many other important variables attached to a specific location: the accessibility of this location, the availability of various infrastructure and facilities, the consumers' behaviour, consumers' purchasing power etc. A comparison of the price of a bread in Paris (France) with the price of "bread" in Bucharest (Romania) is not so much relevant and will not contribute so much to higher competitiveness of economic operators from both countries, even when both prices will be expressed in the same currency. So, this claimed benefit for adopting Euro is, at least, very limited. The same with the others of this kind. For instance, *the higher price stability* when a single currency is adopted. In fact, a single *fiat* money will replace more local *fiat* ones, dismantling the monetary competition among them. The existing monetary competition between *fiat* currencies is submitted to improve the price stability that a single one, especially when strong bilateral trade and investments transactions are present (the case of Single Market). Despite the historical data, no one can theoretically argue that European Central Bank will be less inflationary than several local central banks. On the contrary. Higher moral hazard and more inflationary incentives are involved with a more centralized monetary policy. The other benefits in the favour of adoption Euro from the perspective of EU's consumers are also problematic. *The facilitating of increase borrowing of money* is, at least, a bizarre benefit of Euro's adoption baked by the declared policy of European Central Bank to promote cheaper money policy of the level of Eurozone. The cheap monetary policy is, in fact, inflationary and contradicts the previous benefit. Beside the interpretation of this inflationary policy (cheap money and credit), no one can theoretically argue that a supra-national central bank would promote a cheaper money and credit that national central bank ones competing together inside a Single Market. In fact, the major beneficiaries of cheap money and credit policy are not the final consumers but the commercial banks and the state (EU in this case) that are closer positioned to this over-sized money printing machine than regular individuals. The cheap credit and money are distributed by commercial banks (with huge profits) and most of them are addressed to the public entities (including 'private' operators connected to the state through public procurements or public subsidies). By claiming such benefit in the favour of EU's consumers, the officials of ECB is proving a clear misunderstanding of the nature of genuine capital that results only from savings and a misunderstanding of the role of money and credit in the economic system. The reduced *travelling costs* are also introduced to defend the adoption of a single currency. In fact, the travelling costs are including not only the costs of exchanging foreign currencies with local ones. These exchanging costs are today significantly lowered by the use of electronic money. Another similar argument is associated to a *decreased cost for cross border doing business* explained by no foreign exchange risk for businesses located inside Eurozone. It is true that any transaction between two EU's located businesses are submitted to have lowered risk (due to lower foreign exchange exposure). If

European Central Bank will facilitate more cheap money and credit, this will increase the systemic risk and economic risk associated to a weaker (single) currency. A single currency is submitted to be more inflationary than local ones replaced by it. So, the benefit of lower risk associated to all cross border doing business inside Eurozone are negatively compensated by a presumed higher inflation, higher systemic risk, higher economic risk and higher volatility and depreciation of Euro (affecting the international trade outside Eurozone). The last argument is claiming that adoption of Euro *improve the volume (not the quality) of public investments*. This benefit associated to EU's consumer is, at least, bizarre too. No one can theoretically argue that in case of a single currency the public investments will be higher than in case of a couple of local currencies highly tied together inside a very restrictive European Monetary System (ECU based one or ERM 1).

The adoption of Euro is presented to produce some specific *benefits for business* sector too. The EU's officials are indicating the following benefits: improved cross-border business opportunities; better borrowing condition, better business planning and higher investment rate; improved access to capital resources and, finally, increasing the volume of international trade (European Commission 2017).

The first remark is referring to the smaller number of potential benefits for business sector than in case of consumers. The potential benefits associated to the EU's business sector are again, at least, debatable. The first assigned benefit is *improved cross-border business opportunities* facilitated by the absence of exchange rates inside Eurozone. In fact, due to still existing important countries that are in the Single Market but outside of Eurozone, this benefit is limited. Moreover, the exchange rate between Euro and other international currencies remains and this benefit is limited only to those companies that are locating their business exclusively in the Eurozone. The second benefit assigned to business sector is again *better borrowing conditions, better business planning and higher investments* argued by a reduced volatility and lowered level of long term interest rate induced by sound and prudent management of monetary issues promoted by EU monetary institutions. In fact, this claimed benefit is showing a very limited understanding of the implications of manipulation of interest rate (this artificial lowering of it). An artificial lowered level of interest rate (below its natural rate of interest) is boosting the investments above the natural potential of markets (based on genuine capital produced by savings), is fuelling the entrepreneurial errors and is heating the economy finally accelerating the recession (that will be also higher than natural state of the economy). Therefore, this claimed benefit for business sector, is, in fact, increasing the systemic risk and is significantly reducing the capacity of foresight of entrepreneurs affecting their long term planning abilities. This cheap money and credit policy beyond Euro is creating more entrepreneurial error, destroying the sound part of the whole economy. Euro was claimed to support Single Market and an expansionary policy is against all the actors searching for their more wealth using economic means. The artificial expansion of money and credit is against Single Market principles, negatively altering the structure of production and introducing negative stimulus for economic actors that will be

more interested to be involved in the production of (fiat) money instead of producing real goods and services for the Single Market. The next benefit from the perspective of business sector is *improved access to capital market*. This access is difficult to be directly linked with the single currency replacing local ones. The freedom of capital flows is a fundamental pillar of Single Market and consists in higher capital market integration, standardization of financing and investment instruments, higher transparency, less trading costs and reduced entering and exiting barriers. The single currency is marginally affecting all these issues. The last argument is *increasing volume of international trade*. The volume of exports/imports should be marginally influenced by currency and monetary factors. The influence of exchange rate (depreciation) on the volume of EU exports is not clear and depends on the demand and supply's elasticities. It is commonly stated that local currency depreciation helps exports (that are cheaper abroad) and reduces imports (that are more expensive locally) but this effect is very limited. Moreover, this presumed benefit is working in the case of local currencies as well.

The third category of benefits associated to the adoption of a single currency by the EU officials includes some *general benefits* (difficult to be linked to a specific group of stakeholders): sound and sustainable public finance, better government budgeting, more cohesion and more resistance to external shocks, more efficiency due to a bigger size, facilitating the payments inside the Single Euro Payments Area and improved the EU identity for EU citizens (European Commission 2017).

The discussion is very sensitive in this case too. The first general benefit is talking about *a sound and sustainable public finance* facilitated by the single currency and argued by the imposed nominal convergence criteria for acceding in ERM 2 (public deficit not higher than 3% of GDP and public debt not higher than 60%, prices' stability, lower long term interest rate and stable exchange rate). In fact, in the last decade, almost all major countries from Eurozone significantly increased their public debt above 60% (see the case of Germany, France or Italy) due to significant public deficits generated by inflated public expenditures all over the Eurozone. Additionally, countries with significant nominal convergence problems (like Greece, Ireland or Cyprus) have been easily accepted in the Eurozone. These nominal convergence criteria seemed to be futile and insufficient to ensure a long term financial stability for Eurozone. The claimed common fiscal policy is far away from a providential solution in this case. The introduction in the discussion of real convergence is not solving the problem at all. The next general benefit is *the better government budgeting policy* backed by a reduced cost to finance the public expenditures ensured by a low interest rate promoted by European Central Bank. This benefit is difficult to be assigned to a single currency only, being available in the case of local currencies too. Moreover, to presume that a reduced cost to finance public expenditures will conduct to a better government budgeting policy is a huge mistake. The expansionary monetary policy providing an artificial very low interest rate is a clear source of inflation and moral hazard for many Eurozone's governments that significantly expanded their public expenditures, public deficits and, finally, their public debts above any reasonable limit. Today, all biggest 6 countries of Eurozone are very indebted and this is a clear sign of an unsound government

budgeting long term strategy. The problem of *cohesion* and *better resistance to external shocks* are contradicted by the still many countries preferring to stay away from Euro (special status countries, largest countries from Easter European side like Poland and Romania etc.). The unconventional solutions proposed by European Central Bank in the last years (quantitative easing, bail-out of the EU banking sector exposed to the public debt crisis etc.) significantly altered this cohesion. The last crisis imported from United States was doubled by an internal one generated by the highly indebted countries and the commercial banks exposed to them and, finally saved by a major quantitative easing. The last general benefit is linked to the *European identity*. The replacement of local currencies by Euro is seen to enforce the beliefs of European citizens in their status. With Euro instead of their local currencies, the citizens of Europe will feel more Europeans than before. This approach is revealing to us a very limited understanding of the nature of money. Money is a medium of exchange used to facilitate the exchanges between us (raw materials, manufactured goods, services, capital, labour etc.). Sound money facilitates the economic calculus and provide a good support for the specialization of everybody. It is irrelevant to assign and to discuss about other attributes to this important vehicle for the markets and their actors. Attributes like local or supranational identity assigned to money has no sense. Initially, anything that served us better for facilitating our exchanges served as money (e.g. commodity money such as gold). Gold as money had no national identity assigned to it. Moreover, a very cheap and inflationary currency will have not a proper identity in this case.

Concluding, the economists have limited arguments in the favour of replacing local fiat currencies by a single fiat one. Both currencies (local vs Euro) have identical fiat money features. The discussion would be totally different if we discuss about replacing fiat money with a gold standard or simply gold as money. Moreover, monetary competition between more local currencies is submitted to improve the soundness of them (similar with the competition in any sector). A single currency replacing local ones means higher monopolistic position for money producer and more power and moral hazard for all actors closed to this money producers (including commercial banks and the governments). The attempt to find relevant benefits in such case is very difficult, if not impossible. Therefore, all the benefits assigned to the single currency (Euro) are, at least, problematic.

5 The Economic Convergence Issue for Eurozone's Members

One of the most sensitive issue when the Euro was created referred to the optimality this currency area and the conditions for the EU member states to be included in this new feature and new phase of this integration process. The proposed conditions were included from the beginning the Maastricht Treaty and were called "nominal convergence criteria" for the EMU including five essential pre-conditions

regarding: the inflation (stability of prices is the main objective of the ECB), the long term interest rate, the public debt, the public deficit and the stability of the bilateral exchange rate (later clearly defined). *Inflation* for a country interested to adopt Euro was limited to 1.5 percentage points above that of the three lowest inflation rates of the EMU members (later set to maximum value of 0.7% by the ECB). *Long term interest rate* was set to a maximum limit of 2 percentage points above the average of those three EMU members with the lowest inflation (later fixed by the ECB to a maximum value of 4%). *Public deficit* was set to a maximum limit of 3% of country's GDP and *public debt* to maximum limit of 60% of country's GDP. For *the stability of bilateral exchange rate* the proposal was a mechanism of a fixed band based on a pivot exchange rate (local currency vs Euro) for at least 2 years prior the replacement of local currency by the Euro. These criteria needed more institutional and legal later enforcement for strengthening the fiscal discipline of the Eurozone's countries: *The Stability and Growth Pact* containing some specific measures for limiting the public indebtedness and public deficits introduced by the Treaty of Lisbon (2007); the adoption in 2012 of a new *The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* (simply called *Fiscal Stability Treaty*), that reinforced some provisions of previous Pact (among some of the most important ones are those charging the ECB and other EU's institutions with the power to issue long term debt securities and the introduction of a new concept of deficit—the structural deficit—limited to 1% for countries with public debt to GDP less than 60% and 0.5% for countries with higher public debt to GDP than 60%). This treaty added more indicators assigned to financial stability of a member country (than those five).

The first remark regarding nominal convergence criteria proposed for the Euro's adoption is about the nature of them and the institutions that can directly influence their values. Three of them are directly connected with the central bank's monetary policy: inflation, interest rate and exchange rate volatility. Moreover, all three are also directly interconnected together: inflation with exchange rate volatility (purchasing power parity theory); long term interest rate with exchange rate volatility (interest rate parity theory) and, finally, interest rate with inflation rate (international Fisher effect). The remaining two (public deficit and public debt) are connected with governments but are also indirectly influenced by monetary policy: lower interest rate facilitates the public borrowing boosting the public debt and creates the stimulus for increasing the public deficits. Theoretically, the first and the strongest opponent to adopt Euro is the central bank that will transfer almost all competences to the ECB being "forced" to cut its activities and (well paid) jobs. In this respect, these selection of "nominal" convergence criteria as compulsory conditions to adopt Euro placed under the control or influence of central banks could be an explanation why some "big" Eastern European countries such as Poland, Czech Republic or Romania still prefer to keep their currency outside of Eurozone.

Secondly, the line between the nominal (normative) convergence and the real convergence is purely arbitrary. The limit values set for inflation, exchange rate volatility, public debt, long term interest rate and public deficit cannot be argued by

any sound economic theory. These values are simply based on empirical facts. No economic theory demonstrated that a public debt to GDP lower than 60% is better than 40%. The argument in the favour of this idea is the permanent changes of these set limit values (inflation was set today to a value not higher than 0.7% per year; the deficit was divided into structural and cyclical with different limit values etc.) and a constant preoccupation to redefine financial macro-stability and convergence for countries/regions inside this currency area.

Thirdly, there is an inconsistence of all macroeconomic variables included in this category: inflation is a general increase in the level of prices and is approximated by the Harmonized Index of Consumer Prices (HICP) that is an extended but very limited standardized basket of consuming goods & services; public debt is excluding a lot of private debts contracted by companies that are directly connected with the public procurements (the distinction between public and private debt is very sensitive and difficult to be exactly made); long term interest rate is associated with treasury bills rate etc. Moreover, the GDP of a country could be increased by deficits and by public debts and the ratio of them to the GDP could be biased (higher public debt to an increased GDP by higher public expenditures financed by this increased public debt will return almost the same ratio; the same in case of public deficit).

The concept of economic convergence is fundamental in any discussion about adoption of the Euro, about quick adoption versus late adoption of a single currency or about possible imperfections of this currency area. A theory (of Optimal Currency Areas—OCA) was developed and refers to trade liberalization, to the synchronization of business cycles, to the territorial mobility and flexibility of various production factors (capital, labour) and about fiscal integration and coordination. A catching up process is recommended before introduction of the Euro. The convergence is defined as "*the synchronization of business cycles, i.e., correlation of unanticipated shocks that would reduce the need for individual countries to retain their own monetary policy*" (Frankel 2004, p. 14). The distinction between nominal and real convergence is not so clear. Nominal convergence is something normative and is associated to legislation or agreements assumed by countries or regions. Normally, specific indicators are proposed for estimating this nominal convergence (the same in the Euro's case). The real convergence is not defined in the connection with explicit indicators: we can talk about real convergence of incomes, real convergence in the field of innovation and technology, real convergence in terms of trade or production etc. The economists make the distinction between *long run and short run real convergence*: "a long-run view of real convergence implies the narrowing of differences in the structural conditions of different countries (or regions), thus allowing the achievement of similar performances of real variables; or, more precisely, a catching-up—in the transition period—of backward countries, in terms of standard of living, productivity, etc." and "*a short-run view of real convergence stresses, on the contrary, the business cycle features of (comparative) economic growth of different countries*" (Marelli and Signorelli 2010, p. 8). Three types of convergence have been mentioned in this respect: (i) absolute (unconditional) convergence: "per capita incomes of countries that are identical

in their fundamental structural characteristics converge to one another in the long run independently of their initial conditions" (ii) conditional convergence defined as: "per capita incomes of countries that are identical in their fundamental structural characteristics converge to one another in the long run independently of their initial conditions" and (iii) "club" convergence defined as "*per capita incomes of countries that are identical in their fundamental structural characteristics converge to one another in the long run, provided their initial conditions are similar as well*" (Galor 1996, p. 1). The common element of all these types of convergence is per capita income (or GDP). The differences consists in the importance of initial conditions and in the relevance of structural features (economic growth rate, technological shifts and changes or shifts in the consumers' preferences).

Additionally, the "*beta*" convergence associated to the catching up process of less developed regions or countries due to the diminishing returns associated to invested capital in the developed countries compared with the less developed ones and the "*sigma*" convergence is the process of reduction of the dispersion of real per capita income between different economies" (Solow 1956). The Beta convergence is a necessary but not sufficient condition for the sigma convergence and it is due to the random shocks that determine (Young et al. 2008).

The theory of optimal currency area failed to provide a clear image on the convergence. The large and various forms of convergence *are very confusing* and *do not offer useful insights* about the necessity to converge before adoption a new supra-national currency that will replace the local currency. Historical perspective reveals *that the monetary competition always existed with or without this convergence*. Moreover, the gold or silver were universal money used and recognized all over the world. The shifts between one commodity money to another was only dictated by market conditions and not by politically defined criteria. If in the case of gold used as universal (global) money the problem of convergence was irrelevant, why this problem should be relevant in case of Euro? The shifts between gold (universal money) and tobacco (local money) was not problematic and was not based on any economic convergence conditions. Additionally, the idea of convergence in a Single Market (or globalized world) is counter-intuitive and is against the principles and benefits of economic integration: this process is based on specialization in production of goods and services and improved capacity to sell them at the level of single market. This type of convergence (e.g. in terms of structure of production, business cycles) is against this integration process. Why countries will be interested to be integrated in a group of identical or similar countries that always converge one to another?

The necessity of economic convergence before the monetary integration is, at least, debatable if we see this argument from another perspective: in the case of a country using a local currency, we can find regions or territories that have different development level and that diverge for a specific period of time and the stability of that local currency would not be significantly affected. If this differences, in terms of economic development or economic growth, are not problematic for a local fiat currency, why should be for a currency area using a single currency? The differences between regions or territories inside of a country have the same (ir)relevance as in the case of Euro and

countries/regions all over the Eurozone. In fact, the issue of "convergence" assigned to the Euro currency area fuelled the actions in terms of "cohesion". A lot of specialists and officials are wrongly considering that *the monetary and financial stability will be increased by equalizing the income and development degree between various countries and territories using the same currency* (the Euro in this case). The optimality of a currency area is not improved by any convergence or cohesion political program, on the contrary. The Optimal Currency Areas (OCA) theory is talking about market integration facilitating trading between members (understood as removing the trade barriers and tariffs), about increased factors mobility (labour, capital, natural resources) and about fiscal reductions (Mundell 1961). The OCA theory refers to the openness of economies participating to such monetary arrangements and possible asymmetric shocks if this openness is missing (McKinnon 1963). The convergence and cohesion are wrongly introduced in the discussion of becoming a member of a currency area and merely justified the specific social policies, the increased redistribution and the interventionism promoted today by a lot of the EU institutions and officials (Glavan 2004). In fact, the increased redistribution and interventionism is against the real convergence and contradicts the OCA's prerequisites (e.g. higher market integration, lower trade & investments barriers etc.).

The multiple methodologies corresponding to the various and multiple forms of "convergence" (e.g. real & nominal vs. beta & sigma vs. conditional & absolute convergence) make very difficult any attempt to measure the performance of a country in this respect. All these methodologies are returning confusing results and are very theoretically inconsistent. Any public policy based on such problematic methodological framework is submitted to fail. Moreover, measuring the distance between countries is different than the distance between territories, regions, cities, group of individuals or individuals (e.g. Bucharest region is above the EU average in terms of GDP per capita and economic convergence).

Concluding, the convergence issue has a limited relevance for the monetary stability or for keeping a country outside of a monetary area. The distinction between various types of convergence (e.g. nominal vs. real) is purely arbitrary without any theoretical background or justification. The idea of convergence was wrongly connected with the idea of the cohesion between countries and the regions and fuelled the redistributive policies at the level of the EU. In fact, the convergence is merely seen as a political argument for keeping some countries outside of the monetary club and for creating more sophisticated tools for the state intervention controlled by the politicians and always returned in their own benefit.

6 The Need for a Fiscal and Monetary Coordination at the Level of EMU

The Euro, the EMU and the monetary policy of the ECB are seen today not independent from the fiscal policy. The consumption could be stimulated by the cheap money and credit policy. The taxation of labour versus taxation of

consumption is seen to influence the employment (Burgert and Roeger 2014). The capital and capital accumulation is also stimulated by an expansionary monetary policy. The taxation of capital versus taxation of labour is seen to influence the investments and employment (European Commission 2016). The increase in the taxation of capital determines a relocation of it elsewhere and a cut of taxes on the invested capital deprive the public budget from important resources to be spent for the welfare state policies (Rademacher 2013). The government provided a massive support to the banking sector by purchasing their toxic assets and by providing the necessary capital for keeping their activity alive (Kollmann et al. 2012). The latest developments in the Eurozone after 'subprime' crisis and 'public debt' crisis followed now by the perspective of Brexit fuelled the discussions around the capacity of the European Union to issue its own treasury bills or bonds or the standardization and unification of fiscal system at the level of member states (e.g. a standard and unified VAT for all EU members) (Allard 2013; Corsetti et al. 2016).

The modern economies are asked for an optimal combination between the fiscal and the monetary policy. The public expenditures are no longer financed only by taxes or only by inflation. Keynesians always argued for the limitations of monetary policy to solve the economic recession by reducing the interest rate in order to stimulate the (public) investments (due to high liquidity preference) and provided arguments for an efficient alternative to the monetary policy—fiscal policy (more public expenditure that should compensate the reduction of private investments during crisis). The Keynesian economics is based on the strong correlation between the taxes and the inflation (the IS-LM model is depicting the relationship between the aggregate demand targeted by the fiscal policy and the interest rate altered by the monetary policy). Nowadays, it is generally accepted that the fiscal policy and the monetary policy together would improve the effectiveness of public intervention in the market. The difference between fiscal and the monetary policy consists in: [i] the principles and objectives that are set for them (the aggregate demand, full employment or economic growth for fiscal policy versus the price stability for monetary policy); [ii] the policy instruments that are used to achieve such objectives (the inflation versus the taxation and the government expenditures) and [iii] the institutions that are responsible for the implementing such policies (central banks versus Ministry of Finance in the most cases).

The impact of fiscal policy on monetary policy is commonly assigned to the influence of the public deficit and the public debt on the long term interest rate and its countercyclical effect (Montoro et al. 2012, p. 19). Additionally, according with the neoclassical economists, an expansionary fiscal policy (increase of taxes and/or government expenditures) exercises inflationary pressures that could determine the central banks to fail to achieve its goal of the prices' stability. If the fiscal policy is dominating the monetary policy and "*if the fiscal authority's deficits cannot be financed solely by new bond sales, then the monetary authority is forced to create money and tolerate additional inflation*" (Sargent and Wallace 1981, p. 2). If the interest rate paid by the government will be higher than the real economic growth rate, the central banks will forever fail to achieve the objective set for their monetary policy (monetary base growth rate or inflation rate). On the other hand,

if the monetary policy is dominated by the fiscal policy, "*the monetary authority can permanently control inflation in a monetarist economy, because it is completely free to choose any path for base money*" but the fiscal authority has difficulties in projecting a public budget based on a combination between Treasury bonds and seignorage income paid by the monetary authority for the money production (Sargent and Wallace 1981, p. 104).

In the same way, the monetarists argued for the financing of the government's expenditures by using the taxes and the creation of money (that is viewed as an issue of securities not bearing an interest rate and having no maturity and it is not condemned if it is 'properly' used). But the monetarists pleaded also for a governance without any other possibility than money to issue alternative interest bearing securities such as the Treasury bills, bonds or notes. In accordance with the monetarist approach, the relationship between the monetary and the fiscal policy could be described as follows: "*. . .deficits or surpluses in the government budget would be reflected dollar for dollar in changes in the quantity of money; and, conversely, the quantity of money would change only as a consequence of deficits or surpluses. A deficit means an increase in the quantity of money; a surplus, a decrease*" (Friedman 1948, p. 4). Moreover, they considered that the central bank and not the Treasury should administrate the public debt operations for achieving a higher economic stability (Friedman 1968, p. 102). Monetarists recognized the limitations of monetary policy to peg the interest rate and the unemployment rate for more than a limited period of time and assigned a significant role for this policy in providing a stable background for the economy by operating "*as a surrogate for the gold standard, if it pegged exchange rates and did so exclusively by altering the quantity of money in response to balance of payment flows without sterilizing surpluses or deficits and without resorting to open or concealed exchange control or to changes in tariffs and quotas*" (Friedman 1968, p. 13) and by protecting against an explosive government budget that "*threatens unprecedented deficits, monetary policy can hold any inflationary dangers in check by a slower rate of monetary growth than would otherwise be desirable. This will temporarily mean higher interest rates than would otherwise prevail to enable the government to borrow the sums needed to finance the deficit-but by preventing the speeding up of inflation, it may well mean both lower prices and lower nominal interest rates for the long pull*." (Friedman 1968, p. 14).

It is clear that we are facing with a dilemma in the economic theory (according to mainstream): the monetary and the fiscal policy should substitute or dominate each other or should be used as complementary policies? The general opinion is that the monetary and the fiscal policy should be used as policy substitutes: when one is expansionary the other one should be contractionary. When the government is increasing the taxes or is reducing the public expenditures (contractionary fiscal policy), the central banks should lower the interest rate, should reduce the required reserve rate for demand deposits or should print more money to buy more commercial banks' securities (and the opposite). The government is submitted to act anti-cyclical: to increase taxes during economic boom and to reduce taxes during the economic recession.

None of these policies are neutral to the economic system. Any tax or any tax exemption is influencing the profitability of real entrepreneurs. The redistribution of the income (through the fiscal system) is influencing the production structure (the income taken from "rich" people to be granted to "poor" people will be used in accordance with the preferences of the beneficiaries of this scheme). The level and the structure of prices will be affected in accordance. As Rothbard clearly wrote: "*(t)here is no such thing as a "neutral tax"—a tax that will leave the market free and undisturbed—just as there is no such thing as neutral money. Economists and others may try to approximate neutrality, in the hopes of disturbing the market as little as possible, but they can never fully succeed*" (Rothbard 2009, p. 170). Any new quantity of money that is printed by the central banks or that is multiplied by the commercial banks (that are borrowing money from demand deposits through fractional reserves system) will redistribute the purchasing power from the existing users of the existing money to the first users of the new created money. Therefore the prices (including interest rate) and the production structure will be altered by an expansionary monetary policy. The creditors will also be affected by this unanticipated inflation because they borrowed capital with a different purchasing power than they will receive at the maturity. According to Mises (Mises 1998, p. 428–429), "*(i)nflationary or expansionist policy must result in overconsumption on the one hand and in malinvestment on the other. It thus squanders capital and impairs the future state of want-satisfaction. The inflationary process does not remove the necessity of adjusting production and reallocating resources. It merely-postpones it and thereby makes it more troublesome. Inflation cannot be employed as a permanent policy because it must, when continued, finally result in a breakdown of the monetary system.*"

Concluding, the modern economic systems are combining expansionary monetary policy (cheap money and credit) with high and very progressive taxation in order to finance the increasing welfare states. The European Union and its monetary system is doing the same. The correlation between fiscal and the monetary policy has the most negative effect on the real economy. The financial sector and the public sector are slightly replacing the real production of goods and services. The specialist claiming for strengthening this correlation at the level of the European Union are against the Single Market objectives and are contradicting the optimal currency area hypothesis.

7 Concluding Remarks

The European Monetary Union is a unique endevour that is far away to be ended. This initiative contributed to the development of the European Union but, also, strengthened the state interventionism and boosted the welfare state in the almost European countries. The centralization of the money production removed the monetary competition and fuelled an increased moral hazard. The benefits of Euro adoption for consumers and business sector are, at least, questionable. The

convergence requirements are arbitrarily set and are not necessary when a local fiat money is replaced by another supra-national fiat money (and keeping the same features). The institutional framework of the Euro remained very bureaucratic, with many layers, including the former local central banks that are kept as a key element of the whole monetary system. The stability of the Euro is today affected in the same way as it is affected in the case of the other international currencies (dollar, pound etc.). The creation of the European fiscal union (EFU) and the increased correlation between the fiscal policy and the monetary policy is not a miraculous solution to solve the increasing instability of the Eurozone.

Questions and Activities

1. Explain why a Common Monetary Policy is vital for the Single Market?
2. How monetary integration evolved at the level of the European Union?
3. Analyse the *special status* of countries that are still outside of the Eurozone? How different is the case of non-Euro Eastern European Countries?
4. Explain and comment the main benefits associated to Euro for the EU-members?
5. Why convergence is relevant for the stability of a fiat single currency as Euro is?
6. By considering their features, how different is Euro than local currencies replaced by it? How important is monetary competition in this case?
7. Analyse how many EU members (Euro and non-Euro) are fullfilling all nominal convergence criteria. Please comment the result.
8. Please reveal why monetary policy should be coordinated with fiscal policy. Why EMU needs a common fiscal policy in this case?
9. How Euro can contribute to more united Europe?
10. Can you explain the differences between monetary stability, financial stability and macroeconomic stability?

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