Monetary Integration – Factor of Economic Cohesion and Solidarity among EU Member States

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Abstract: The success of the EU is based on the convergence of the monetary policies of the Member States, and a genuine Single Market includes the monetary union. The monetary integration represents a factor of the economic cohesion and of the solidarity among the Member States. In order to have a united Europe, this is an advantage in the relationships with other states of the world. The major objectives of the monetary union are: a) The finalization of the Single Market through the elimination of uncertainty and of the inherent costs of the exchange system, but also of the costs for the protection against the risks of the currency fluctuations, and through the insurance of the total comparability of costs and prices inside the EU. The Single Market will stimulate the intra-communitarian trade by helping the citizens and by supporting the business environment; b) Economic growth; c) Europe's monetary stability and the increase of its financial power.

Keywords: economic cohesion, monetary union, economic integration

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European Union's success is based on the convergence of Member States' monetary policies, and in the same order of ideas and full understanding of terms, an Internal Market includes the monetary union. The monetary integration is a factor of economic cohesion and solidarity among the Member States. For a united Europe, this it is an asset in the relations with the rest of the world.

The major objectives of the monetary union are:

- completion of construction of the unique market by removing the sensation of uncertainty and of the inherent costs of currency exchange, but also of the costs of protection against the risk of the currency fluctuations, and by ensuring the full comparability of costs and prices within the Union. By facilitating the business unrolling and coming in the support of the citizens, this must stimulate the intra-community commerce;

- increasing the economic activity;
  - consolidating monetary stability in Europe and increasing its financial power by:
    - eliminating, by definition, of any possibility of speculation involving the community currencies;
    - ensuring, through the economic and financial dimension of the monetary union thus formed, of a certain invulnerability of the new currency to the speculations at an international level;
    - creation of possibilities for the euro to become a major reserve currency and a payment currency

The stages of E.M.U creation were designed to ensure the transition to the unique currency, so it should have a solid base, particularly due to the prior achievement of a full convergence of the economic and monetary policies. The third stage of the Economic and Monetary Union (E.M.U) started on 1 January 1999. This date marks the beginning of some important changes for the Member States, even for those that are not yet making part of the euro area[1].

In the economic sphere, the most important thing is the coordination of the national policies (through the national programs of convergence, the guidelines for the economic domain, multilateral surveillance and the excessive deficit procedure). All the states will have to respect the Stability and Growth Pact, to prevent the direct financing of the budget deficit by the Central Bank, to prohibit the privileged access of the public authorities to the financial institutions and to ensure the free movement of the capital. While the accession implies acceptance of the EMU objectives, performing the convergence criteria is not a precondition. However, since these indicators are indices of some stability – generating macroeconomic policy, all Member states will after all have to carry them out. According to the EC Treaty and excluding the “opt-out” statute, a Member State either has adopted the euro, or it benefits by a waver. A member state to which a waver is applied is, in accordance with the Article 122 of the Treaty, excluded from the rights and obligations of the European System of Central Banks (ESCB).

[1] Constantin Popescu, *Rationality and Hope. Paradigm of the Living Whole*, Bucharest, 2006

On January 1st 1999, the unique European currency has become an accomplished fact, marking the most important moment of the century, after the establishment of the Monetary System of Bretton Woods. The process of monetary unification has been a difficult one, sprinkled with impeding episodes, with failed projects and with some uncertainties related to its success.

Half a century since the beginning of the economic integration in the Western Europe, they are trying to find answers to some questions such as: the process of monetary unification is mainly influenced by the economic or political factors? Which are the costs and benefits of the monetary union and which are the conditions for the benefits to have priority? What are the steps necessary to achieve the monetary union? What lessons can new member states learn from the experience of the 12 countries that currently form the euro area? The two components of this stage, respectively the economic union on one hand and monetary union on the other, cannot be separated, even if a thorough analysis for each can definitely be completed. In the case of the EU, the monetary union precedes the politic union but needs the economic union, being in front of a unique process, totally different from other historical experiences.

In the domain of structural reforms, in the recent year the countries from the euro area have become increasingly aware of the necessity to face the challenges of the increasing of global competition, the aging of the population and the intensification of the technological progress. Consequently, some of those have made efforts to create jobs. As a result of these reforms and of tempering the wage increases in some countries, the euro area has recorded in the last period a considerable acceleration of the growth rhythm of the occupied population. Noting that in the euro zone there were created around 12 million jobs during the eight years which have past since the entry into the third stage of the Economic and Monetary Union (EMU), compared with just over 2 million of new work places created in the same group of countries in the eight years preceding 1999. However, the Governing Council notes the persistence of some major structural impediments which explains the rates still unacceptably high of the unemployment and the still low level of participation on the labour market, according to the international standards. Considering the fact that on an international scale other states act to increase their own markets' competitiveness, it is important that in each country from the euro zone should minimize the failures at the level of the generated markets by the specific regulations and that the whole euro area to also remove the very last barriers in the path of markets' integration. An important element that must be taken into account is the accession of the UK at EMU, because the impact of its accession may be higher then in the case of the last new 12 members of the EU. This is because, among the member states, Great Britain has the most correlated economy with the euro area. Moreover, The GDP of the UK is about 17% from the GDP of the European Union, compared to 5% percent that represents the GDP of those 12.

Great Britain, the second largest economy in Europe, announced (October 1997) by the voice of Chancellor Gordon Brown that in order to decide if and when it were in its interest to adhere at the economic and monetary union, it would takes into account five economic tests, namely:

- whether there is a sustainable convergence between the economies of Great Britain and those from the euro area (are the business cycles and the economic structures compatible?);
- if there is sufficient flexibility of the Great Britain's economy to cope with the economic changes that might occur;
- if the accession at the EMU would create better conditions for firms to make long term decisions to invest in the UK;
- what would be the impact of accessioning at EMU on the competitive position of the financial industry services of the Great Britain;
- whether the accession at EMU will generate a higher growth, stability and a lasting increase of jobs in the UK.

Despite the Chancellor's statements, these criteria are subjective rather than objective. A review concerning the satisfaction of these criteria carried out by the UK Treasury[1] (2003) showed that it is not yet the high time for Great Britain to adopt the euro currency and the perspective of a referendum on the unique currency appears also faraway. The result of a referendum is of a fundamental importance for the business environment in UK whereas, on long term, the economic environment of this country will be governed by the decision made in a unique currency.

The question to ask is whether this accession will bring a new era of economic prosperity as a result of deleting the final barrier towards a single unique European complete market or that Great Britain will be locked into a system that does not allow economic decisions necessary to satisfy the position of the UK, and which could lead to a catastrophic situation.

[1] http://www.ec.europa.eu – European Commission

The British specialists who have in turn reviewed the five criteria have found that:

1) Linked to the first criterion – so called cyclical convergence test – a recent report, prepared by the National Institute of Economic and Social Research in Great Britain, shows that there is not a greater convergence between the UK and the euro area than that found in 1997. The proof is that the interest rates are now very close and the UK has the lowest inflation rate in Europe. It is recognized as a negative fact that the household market in the Great Britain is significantly different from the rest of Europe.

2) The answer at the second test: it is necessary to have the labour mobility or the wage flexibility, or both, so that the costs of labour should be adjusted so as to face economic changes.

Some analysts might argue that Great Britain and the EU have moved simultaneously but it is rather the attribute of the UK economy which becomes less flexible as a result of the increased bureaucracy than that of the EU which becomes increasingly flexible (and the model evolves towards the USA).

3) Could the decisions concerning the long-term investments be backed by the accession to euro? Although the exchange rate safety could be guaranteed for the businesses that Great Britain makes with Europe, this security will not work for the business that are made with other parts of the world. Therefore it is not right to say that the safety will be improved for all the business decisions. In addition, if the membership at the euro area would have an adverse impact on the economy of Great Britain then the decisions concerning the long-term investments could by no means be supported.

4) Could be the accession compatible with maintaining the competitive position of the financial industry services in Great Britain? The opinion is that the affiliation to the euro area could provide even greater opportunities for the UK to maintain its ascendancy.

5) Will the accession to the euro area generate a higher growth, stability and a lasting increase of jobs? The supporters of the changeover to the euro could argue that the removal of the final barriers in the trade's path would ensure an increased economic prosperity. The adversaries of passing to euro could argue that the UK's economy operated better from the introducing of the euro currency and that this shows that could be beneficial the UK to remain outside of the euro area.

Of course it will be a difficult judgment for the Treasury to consider whether the economic criteria are properly observed. This decision will have a direct impact on the calendar probably of a referendum, and the latter’s result will decide the long-term economic framework of Great Britain’s business milieu.

Given the significance of this issue, it is even more imperative that the voice of the business environment should be heard in the political debate over the accession of Great Britain to euro. Specialists reckon that the government are not to launch a referendum only if is having the certainty that will win an will launch a referendum unless there is a positive answer at each of the five tests.

Therefore the probably scenario, given that the current indications show that it is not possible for the government to win the referendum, is a political compromise –“the UK’s economy has closed significantly since 1997 pertaining to the satisfying of economic tests, yet there are further steps to be done and a subsequent period with another evaluation is necessary before a final decision can be made. So the best probability is that the referendum is to be postponed until after the next elections.

The Constitutional Treaty and the EU Cohesion

The European Constitution is an important step in the European construction. It is designed to meet the challenges of a changing world, ones encountered by a Union crossing the largest expansion and, nonetheless, of a united Europe of over 450 million inhabitants. The European Constitution must create the framework for democracy, freedom and transparency, for an powerful Europe which works closer by each citizen.

The European Constitution replaces the existing treaties with a unique text, blends with the national constitutions and with the institutions of the European countries and does not replace them by any means. The Constitution ensures the legal continuity of the Communities, simplifying the legal instruments and adapting the decisional process to the current challenges.

The European Constitution is divided in four parts. The first part defines the European Union, delineates its values, objectives, powers, decisional procedures and institutions. The second part contains the Charter of Fundamental Rights. The third part describes the policies and the way of functioning of the European Union. The fourth part contains the final provisions, including the procedures of reviewing and adopting the Constitution.

The founding Principles of the Union

- The Union values and objectives are formally established by the Community law as well as the European citizen rights, due to the inclusion of the Charter of Fundamental Rights in the Constitution.
- The Union acquires legal personality by fusion of the European Union with the European Community.
- Powers (exclusive, shared and of coordination) and their distribution between member states and the Union are unambiguously defined.
- For the first time member states can leave the Union due to the introducing of the volunteer withdrawal clause.[1]
- The legal action instruments of the Union are simplified, their number being reduced from 15 to 6. It also happens with the terminology, by the introduction of the European law and of the framework European law.

Union's Institutions

- European Parliament seats are downward and proportionally distributed. Starting with the next mandate, meaning from 2009 on, the Constitution provides minimum 6 parliamentary seats for the member states. The maximum number of parliamentary seats that a member state can have is 96
- The text provides as a decision on the composition of the European Parliament for the 2009 – 2014 mandate should be taken by he European Council at the proposal of the Parliament by unanimous vote. The number of parliamentary is not to exceed 750.
- The European Council, which will be chaired by a President elected for two and a half years, is formally recognized as a European Institution. The six-month Presidency of the European Council is being renounced at.
- The member states will have a commissioner until 2014, the date on which the number of commissioners is reduced, being equal to two thirds of the member states number. In addition, the commissioners will carry out the function by

[1] Gabriela Drăgan, *The European Union between Federalism and Intergovermentalism. EU Common Policies*, ASE Publishing House, 2005

rotation. The Commission President will be elected by the European Parliament based on a proposal from the European Council.

- The function of Minister of External Affairs is created, which takes over the duties of the commissioner for External Relations and of the High Representative for the External Policy, being subordinate to the Council. The Minister of External Affairs is presiding and the Council of Ministers are reunited in the structure which deals with the problems of external policy.

The Decisional Process

- It was convened upon a new system of qualified majority: 55% of the member states representing 65% of the population;
- The qualified majority in the Council of Ministers is applied for other 20 extant domains and another 20 created;
- Adoption in common of the laws and the European framework laws by the European Parliament and the Council becomes a norm a normative settlement (an ordinary legislative procedure);
- There are created some passageway clauses to facilitate the further expansion of the applying of qualified majority voting and passing to an ordinary legislative procedure;
- From now on, both the Parliament and the Council of Ministers are obliged to hold public meetings when they analyze and adopt a legislative proposal (procedures' transparency).

EU policies

- The coordination of the economic policies of the countries that are part of the euro area must be improved, and the informal role of the Euro Group must be recognized;
- "Pillars" are abrogated by including the second pillar (External Policy and Commune Security) and the third pillar (Justice and Internal Affairs) within

the community. These domains were previously regulated by the intergovernmental method;[1]

- The external and commune security policy is strengthened by the creation of the European Minister of External Affairs function and the progressive definition of a commune policy of defence, for example by establishing a European Agency for the Defence and the authorization of consolidated cooperation in this domain;
- There is also brought up the creation of an area of freedom, security and justice by planned implementation of the commune policies pertaining to the asylum, immigration, control of the external border, of police and judicial cooperation, by extension the actions of Europol and Eurojust and creating a European Prosecutor's Office.

What Does the Constitution Provide to the citizens?

- Fort the first time the democratic fundamentals of the Union are defined, including the participative democracy. It is introduced the right to civic initiative for citizens (at the request of at least one million citizens from a certain number of member states, The Commission may be determined to submit a legislative proposal according to the signatories wishes.
- The Constitution strengthens the enforcement of the principles of subsidiarity and proportionality: from now on, each national parliament will have the possibility to analyze the Commission's proposals from the viewpoint of subsidiarity principle, the conclusions may lead to the revision of the original proposal made by the Commission;
- The Constitution strengthens the regional policy of the Union, a policy based on solidarity and proximity to citizens. The regional policy promotes the "cohesion and economic, social and territorial solidarity between the member states". From now on, the solidarity and cohesion are the main objectives of the European Union. This means that the EU solidarity, more specifically, the financial assistance, is now benefited by all the disadvantaged regions or the regions in difficulty;

[1] http://www.infoeuropa.ro –*Representation of European Commission in Romania*

- The European Constitution contains additional provisions relating to the environmental protection. The principle of sustainable development occupies a central place in the European project.

Ratification of the Constitution

In 29 October 2004, the Head of States and Governments of the 25 member states and 3 candidate countries signed the Treaty establishing a Constitution for Europe adopted unanimously by them on the 18th of June of the same year. The treaty enters into force only when it is adopted by each of the signatory countries in accordance with their constitutional procedures, the member states having two years to ratify the text of the Constitution.

Recent evolutions

The Constitutional Treaty was subject to ratification of the 25 member states. As it is known, the EU Constitution was rejected by referendum in France and Netherlands. As a result, the European Council reunited in Brussels on June this year, in one of the most important summits of the last years, in order to reach a new agreement on the contents of a new treaty which will replace the European Constitution. "I am satisfied with what we got at the last European Council – a new base for the European Union", said the German chancellor Angela Merkel, referring to the agreement of the 27 members concerning a new Reform Treaty."[1]

European leaders have managed to reach an agreement on the project of the treaty which will replace the European Constitution from 2004, at the end of nearly 36 hours of intense negotiations concentrated around the Polish pressure to prevent the finding of a solution to allow the reforming of European institutions' operation. The main points of agreement are:

1) The EU leaders will elect a president of the European Council reunions for a two – year and a half renewable mandate, instead of the current half-year presidency, exerted in turn by the member states. The Treaty will establish a powerful function of the new head of the European diplomacy, which should provide the community block with a greater share at the international scale. This - who will not be called "EU external minister", following the UK's objections -

[1] Gabriela Drăgan, *Tendencies and Evolutions at the Level of the EU Cohesion Policy*

will be responsible to national governments, and will manage the huge external aid budget of the European Commission. The member states will benefit by a mutual clause of defence, after the NATO model, in the case in which one of them is under attack.

2) The voting system will continue to be based on the current procedures stipulated in the Treaty of Nisa until 2014. After this date, the vote will be based on the “double majority”, system, which requires the agreement of 55 percent of the member states, representing 65% of the EU population, for adopting a decision. However between 2014 and 2017, any member state could ask all alone for the re-application of old rules from the Nisa Treaty in any decision voted for in this period. Great Britain won, in its turn, the right to choose which issues from the domain of justice and internal affairs will be conceded for their coordination by the EU.

3) The agreement confers a coercive character to the current Charter of Fundamental Rights, except for Great Britain, which demanded and obtained an exemption from this rule.

4) According to the new provisions required by Holland, national parliaments will be able to reject the legislative proposals of the European Commission which are contrary to the national competencies.

5) Compared to the project of constitutional Treaty, the new treaty removes the references to a EU Constitution and the symbols such as the European flag or anthem.

The Cohesion Quality and the Strength of the European Union

The cohesion policy has proven to have a real effect in supporting the developing of the European Union regions, but it will encounter face new challenges in the years to come. These are the current findings in the most recent report of the European Commission concerning the economic and social cohesion (30 May 2007).[1]

According to the dispositions of the article 159 from the consolidated version of the Treaty of establishing the European Community, every three years, the Commission hands over to the European Parliament, Council, Economic and Social Committee and Committee of Regions a report concerning the recorded progresses in carrying

[1] http://www.ec.europa.eu – European Commission

out the economic and social cohesion and the way in which the various means provided in this article contributed to this progress. This fourth report, presents , for the first time, the economic, social and territorial situation from the 27 member state of the European Union after the expansion, as well as an from the 268 regions of them. The report contains a detailed analysis of the regions situation in terms of GDP, productivity and employment. This identifies a number of challenges which the member states will encounter and the regions over the next years and provides a first assessment of the impact of the European cohesion policy during the 2000 – 2006 programming period, as well as of the preparations for a new programming period, i.e. 2007 -2013. The report contains 10 questions designed to initiate, both at the level of the European institutions and outside them, discussions on the future prospects of this important area of policy.

In the presentation of the report, Dănuza Hübner, the Regional Policy Commissary, declared: “the Cohesion Policy has proven its ability of adaptation to different situations. Through the cohesion policy there were supported the necessary investments in infrastructure, human resources as well as in upgrading and diversifying economies at the regional level. It was facilitated the orientation of the policies of public investments in different member states in the sense of the established priorities at the level of the European Union. After that, Mrs. Hübner declared: “the Cohesion Policy assumes granting opportunities to each citizen throughout the European Union’s territory, by reducing the differences between regions, by using the unused potential and concentrating the resources in investments designed to contribute to development. The European Union will confront with many challengers in the near future: the demographic decline that will start to manifest around the year 2020 and the phenomenon of reducing the population, already present in many regions, the growing economic pressure exerted by the global competition, increasing energy prices, climate change and social polarization. Europe must respond to these challenges. For this purpose, all regions and the entire population should contribute to the ensuring of welfare, to creating jobs and stimulating the development.”

Divided in four chapters **the fourth cohesion report** presents:

1) *The situation of and the economic, social and territorial tendencies in the Member States and in the EU-27 regions*: There can be noticed a diminishing during the last ten years in the differences concerning the incomes and employment on the European Union territory. Yet it is still

necessary to make long term efforts to reduce the existent differences between the most disadvantaged areas.

2) *The cohesion policy impact*: The European Cohesion Programs supported directly the promotion of regional convergence and employment. For example, during 2000 – 2006 the convergence policy has contributed to the GDP growth with 2.8% in Greece and respective 2.0% in Portugal; the preliminary estimations predict that in 2007 – 2013, the cohesion policy will contribute to the increase of GDP by about 8.5% in Lithuania, Leetonia and Czech Republic, with approximately 5.5% in Poland and with about 3.5% in Greece, The cohesion policy also brought a contribution to the reducing of the phenomenon of poverty and social exclusion: it is ensured annually the co-financing of the professional training courses for 9 million persons, of whom more than half are women – courses that contribute to obtaining some better work conditions, as well as and higher revenue; during 2000 – 2005 there were created over 450,000 jobs in six countries, using in this purpose 2/3 of the funds provided by the 2nd Objective.

3) *National Policies and cohesion:* Public investments have fallen in the recent years because budgets are facing the effects caused by population's aging (pensions reform, more expensive education and health systems), as well as and by the economic reform what has as result the strengthening of public finances. In 1993, public investments were about 2.9% of GDP. Twelve years later, those had decreased to 2.4% of GDP. In the same time, we witness the occurrence of a process within which the decisions and management of the public investments are slow, yet are gradually decentralised towards the regional and local levels.

4) *Community policies and cohesion:* The different Community policies – those relating to research, development and innovation, agriculture, competition and state aids – will enhance the effectiveness of the cohesion policy, for example by particularly considering the economic, social and territorial circumstances. The reports show that these circumstances are increasingly observed, but that the necessary synergies are not at work thus far for their turning to the best account.[1]

[1] http://www.eukn.org – European Urban Knowledge Network

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