



EVALUATION OF THE OBJECTIVE TO ADOPT THE EURO WITHIN THE PRESENT MACROECONOMIC CONDITIONS

Silviu-Marius ȘEITAN, PhD.*

Rezumat

În conformitate cu teoria, deși nu există un consens terminologic referitor la conceptul de "guvernanță", rezultă unul din domeniul politicii comparative sau din relațiile internaționale, care se referă la modele alternative de guvernare. Având în vedere conceptul susmentionat, această lucrare propune un model de administrare a problemelor existente în economia reală internațională. În acest model, în conformitate cu această propunere, principalii factori de management al problemelor societății și economiei sunt următoarele: sistemul administrativ macroeconomic trebuie să devină factorul coordonator al dezvoltării economice; sistemul economiei reale trebuie să devină factorul de acțiune al dezvoltării economice; condiția principală este ca cei doi factori de mai sus să lucreze împreună în conformitate cu regulile unei relații continue de colaborare deplină. Toate aceste elemente trebuie să devină realitate întrucât cel mai important rol al activității economice este acela de a genera sprijinul necesar pentru dezvoltarea societății.

Acest articol a beneficiat de suport financiar prin proiectul „Studii post-doctorale în economie: program de formare continuă a cercetătorilor de elită – SPODE”, contract de finanțare nr. POSDRU/89/1.5/S/61755, proiect finanțat din Fondul Social European prin Programul Operațional Sectorial Dezvoltarea Resurselor Umane 2007-2013.

* Scientific researcher III, Centre of Financial and Monetary Research “Victor Slăvescu”, Romanian Academy.

Abstract

According to the theory, even does not exist a terminological consensus regarding the concept of "governance", it comes from the comparative policy field or from international relations one and refers to alternative models of governing. By taking into consideration the above-mentioned concept, the present paper proposal is a model of governance meant to the actual problems of the real international economy. In this model, according to the present proposal, the main factors of management of the society and economy problems are the following: the macroeconomic administrative system should become the coordinating factor of the economic development; the real economy system should become the action factor of the economic development; as the main condition, the above-mentioned factors should work together according to all rules of a continuous full-cooperation relationship. All these elements should become reality by having in mind that the most important role of the economic activity is the generating of the necessary support for the society development.

This work was supported by the project "Post-Doctoral Studies in Economics: Training Program for Elite Researchers – SPODE" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, Contract No. POSDRU/89/1.5/S/61755.

Keywords: governance, sustainability, macroeconomic integration, crisis

JEL Classification: E 61

1. Theoretical approach

According to the theory, although there is no terminological consensus on the concept of "governance", it comes either from the field of the compared policies, or from the field of the international relations and it designates alternative forms of governing, both for the single state (the „Westminster” pattern characterised by the sovereignty of the Parliament, decisional power entrusted to the Government and direct ministerial accountability), which no longer fits the dynamics and complexity of the global society, with inter-organisational and interactive nuclei of influence, superstate or transnational, and for the traditional pattern of the representative

democracy. The first distinction to do is that between “government”, with its action “governing”, and “governance”. The government is the state mechanism invested with the authority and legitimacy to act on the citizens via its three powers – legislative, executive and judicial – and via institutions which concentrate the power and enforce the decisions, essentially referring to the official state institutions, and governing refers to the central intervention based on authority (Stoker 1998) relying on rational and comprehensive decisions. Governance is a “different form of governing”, an alternative to the action of the government, which aims to (re)distribute the power within the public space by (re)negotiating the authority and by an incremental approach of the decision-making within the partnership networks: social partnerships (government – owners – unions); public-private partnership (state structures – business environment) or civic partnership (public authorities – civil society)

2. Proposed pattern of governance

In the acceptance of this study, the current international crisis has no economic roots; rather it is a systemic crisis because the public administrative capacity was outran by the capacity and rate of development of the real economy. Regarding the economic area, the macroeconomic administrative capacity was outrun by the capacity and rate of development of the real economy. The study proposes a pattern of governance to solve the current problems confronting the world economy: the administrative system of the macroeconomic policies assumes the role of coordinating factor of the economic development; the system of the real economy assumes the role of driving factor for the economic development; permanent collaboration between the two factors of the economic development based on the following concept: the role of the economic activity is to create the support for the development of the society.

Under these circumstances, starting from the current situation, the problem to be studied approaches the following aspects: the risk of adopting the single European currency within the current context; possible macroeconomic scenarios at EU level; macroeconomic scenarios to be taken into consideration by the new EU member states; evaluation of the scenarios.

Unless the proposed pattern of governance is enforced, the current international economic problems will worsen because the economic-social risks will produce effects.

This working variant will be excluded from this analysis on the following grounds:

1. The outrun of the macroeconomic administrative capacity by the capacity and rate of development of the real economy will increase and will yield effects multiplied in directions that are different from those which should support the development of our society;

2. Under such circumstances, the states of national macroeconomic misbalance and the macroeconomic misbalance within the Euro zone will only amplify, endangering the state of the single currency among the other world currencies.

3. Starting from this aspect, the pattern of the Euro zone enlargement will transform into the following situation: a misbalanced macroeconomic environment, or a major risk of misbalancing will tend to accept new elements of misbalancing represented by the national macroeconomic systems aiming to join the Euro zone; however, these national macroeconomic systems experienced macroeconomic imbalances both because of failing to implement the proposed pattern of governance, and because the macroeconomic misbalance of the Euro zone reverberated its effects over them, while the single European currency changed status in relation with the other world currencies. In the acceptation of this study, this pattern is not viable in terms of the economic logic or in terms of the acceptability by the policy decision-makers.

Consequently, this analysis starts from the hypothesis of the European and national implementation, in due time, of the proposed pattern of governance.

This analysis considers the proposed pattern as condition, or at least solution to be applied at the macroeconomic administrative level, in order to end the current international macroeconomic state.

3. Detailing the matter

Starting from the basic idea of the determining role of the economic activity for the progress of society, the two factors which ensure the development of our society – the coordinating factor, the macroeconomic administration, and the driving factor, the real economy – work together to maximize the development opportunities

and to reduce the risks, based on consolidated variants with a good performance at the juridical, institutional and procedural level.

The main result of the collaboration between the two factors is the coordination of the real economy development by the proper design of the macroeconomic policies. Thus, according to Figure 1, the possibility of creating a market is eliminated, at the level of the real economy, in "variant 2", all the economic resources, the new created value included, contributing to the establishment of the economic trend required by progress of our society.

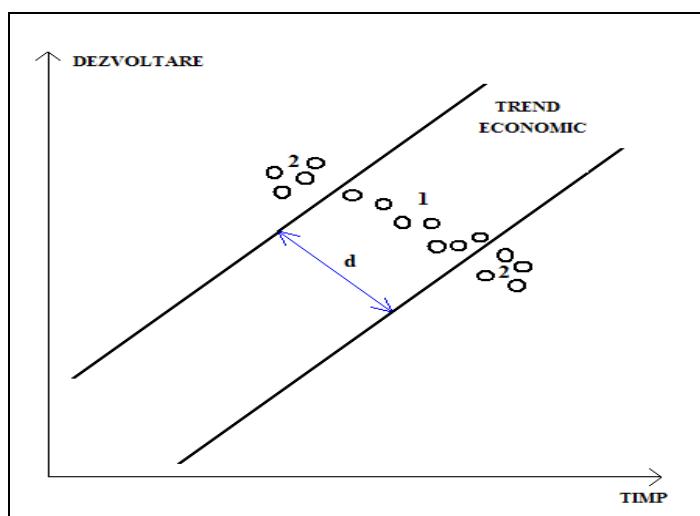


Figure 1. „Economic trend– development – time” relation

The economic trend referred to by the macroeconomic policies has to be identified. This matter is, in the acceptation of this study, a combination of the real and intrinsic trends of development and the coordination by the organising factor, so that the social progress is achieved according to society requirements and potential of development under the conditions of a performing risk management.

The enlargement of the Euro zone is strictly conditioned by the implementation of the pattern as macroeconomic administrative system. An approximate term can be inferred, correlated with the macroeconomic administrative approach.

From another perspective, if the national approach of the macroeconomic administrative system is in agreement with the

proposed pattern, “what would result from the evaluation of the opportunity to join the Euro zone?” This question is considered subsequently.

Starting from the agreed hypothesis, the implementation of such a system of national macroeconomic administrative approach would ensure efficient conditions for the development of our society and this triggers the question: “what more could bring the affiliation to the Euro zone?”

A first answer would be the access to a common market and to a common currency, which would remove all barriers from the interstate economic reactions, to the benefit of the development of these relations as source for economic growth.

Taking into consideration this answer, a counterargument is that the limitation of the phenomenon of European integration would be enough to facilitate the development of the interstate economic relations. The lack of a single currency makes necessary the currency exchanges and this leads to gains/losses from the difference of the exchange rates, when the transactions are finished. Is the will to remove this problem justifying the adoption of a single currency?

The adoption of a single currency has, at least theoretically, an advantage: an easy system of macro-stabilisation. Actually, is this system as easy as that? Can the risks and shortcomings of such system be ignored, managed or justified in front of the assertion regarding the advantages of a single currency system?

In response to these problems, we propose the following approach:

- **Regarding the perspectives of the monetary policy approaches**, currently, taking the case of Romania and extrapolating to the situation of the new EU member states, they are in the process of European economic integration, which presumes accepting this coordinate as having priority for the design and implementation of the macroeconomic programs. At the same time, however, the national economy of such state is receiving risky phenomena from the current international crisis and, potentially, any other phenomenon of crisis, the main channels of transmission being the financial relations, the commercial relations and the energy relations. This situation occurs worldwide, but with different intensities of the felt effect. This intensity has the following main coordinates:

Monetary Studies

- **aggravating**: the degree of involvement in the international economic relations, which is directly proportional with the development of the national macroeconomic system;

- **attenuating**: the level of development, the consistency of the programs and the flexibility of the management mechanisms of the national macroeconomic system, directly proportional with the development of the national macroeconomic system.

The essence of this matter is that, under conditions of crisis, substantially different macroeconomic systems with different possibilities to receive and respond, are practically forced to accept the same prioritization of the general macroeconomic problems; the result is a longer period of existence of substantial differences in the level of national economic development, which may hinder the establishment of a regional macroeconomic balance, as basis for the sustainable regional development.

Analysing Fisher's¹ equation of the macroeconomic balance, and using the theoretic condition for a stable economy, as it is the case for the members states with developed economies, with $V = \text{ct.}$, we obtain the formulation:

$$\frac{p * T}{m} = \text{ct.} \quad (1)$$

Or, using $V \approx \text{ct.}$, we obtain:

$$\frac{p * T}{m} \approx \text{ct.} \quad (2)$$

For the new member states, with developing economies, the condition can be written as: $V \rightarrow \text{ct.}$, which yields:

$$\frac{p * T}{m} \rightarrow \text{ct.} \quad (3)$$

Taking into consideration the current situation of the new member states, described by equation (3), at the moment of their integration into the European Monetary Union, their situation will be described

¹ Of the following form: $m \times V = p \times T$, where: m = monetary mass in circulation; V = speed of money rotation within the economy; p = level of prices within the economy; T = production of the economy.

partially by equation (2), same as for the member states with developed economies, the difference of situation between states being quantified by the margin of approximation represented by equation (2). The differences, aggravated by the world economic crisis presume the assimilation of a good management of the main European macroeconomic policies – concept which requires the following:

- Adopting a higher flexibility of the single monetary policy than the programmed one, due to the effects of the world economic crisis, which calls reviewing the volume of the monetary mass used in open market operations;
- Reanalysing the programmed stages of harmonization towards the unification of the fiscal policies due to a major necessity: allowing sufficient opportunities for the member states to intervene and adjust the national economic situations, which would absorb part of the differences of approximation from equation (2) and would enable reaching a higher degree of correspondence between the national macroeconomic situations of the member states;
- Reanalysing the coordinates of the Union budget formation, the main two objectives being the establishment of an anti-crisis fund and the identification of a balance between the obligations of the member states towards the single budget and their domestic requirements, under the conditions of the effects caused by the world economic crisis.

The preparation of the macroeconomic systems for the prevention and control of the world economic crisis effects will increase the funds from the budget allocated specially to this purpose, which was expected, but this expenditure is increased from the position of EU member state by:

- The need to support the programs for European integration;
- The need to get ready to cope with the risks resulting from the position of EU member state – whose potential effects are not absorbed completely by the common actions.

Reverting to the processed (2) form of Fisher's equation of the economic balance, we can make a comparison, in terms of qualitative analysis, between the situation of the member states with developed economies and the situation of the member states with developing

Monetary Studies

economies: in both cases, the price of the similar products from the economy tend to reach a situation of comparability, substantial differences still remaining for the production of goods and for the monetary mass in circulation – differences which will, most probably, persist after the monetary integration as well. This will call for a stronger effort of the single monetary policy, materialized in a higher intensity of the open market operations, to support the monetary problems of the new member states.

Regarding the flexibility of the single macroeconomic policy, the direct reference being to the case of the single monetary policy, this is less flexible than the national monetary policy, because the monetary areas with different stages of development demand different efforts, which calls for a common direction of action for the broad range of problems to be solved. The single monetary policy and, in general, any single macroeconomic policy, will become more flexible and will increase its efficacy of response to external factors, as the stage of economic development of the member states will homogenize.

Several issues can be highlighted regarding the member states' possibilities of response to the action of external economic factors:

- The efficacy of the single macroeconomic policies depends directly on the level of homogeneity existing between the level of development of the member states;
- Since the external economic factors will continue to act on the macroeconomic system of the European Union, it is increasingly necessary to identify and use a new set of macroeconomic indicators which to evaluate the degree of heterogeneity/homogeneity of the member states' level of development; such set of indicators has to set the timescale of the stages of the strategies of harmonization and unification of other macroeconomic policies;
- In the immediately following period, particularly as soon as the Monetary Union enlarges, the fiscal-budgetary policies will be the main macroeconomic instruments used to consolidate the national macroeconomic balance
- The national fiscal-budgetary policies of the member states must not be coordinated towards unification faster than the pace of the sufficient and stable homogenization of the member states' levels of development, because the

macroeconomic policies would have too few possibilities to respond to the action of external economic factors, and this would yield major imbalances in the EU macroeconomic system.

In conclusion on the results of the analysis as far as this moment, in the acceptance of this study, we need to compare the following two variants: **limiting the act of integration just to the economic part of the common market, versus the full economic integration**, whose risk- and additional efforts-generating deficiencies will vanish when the differences in the economic and social development between the member states will lessen. More than that, since the new member states are in full process of European economic integration, which requires the acceptance of this coordinate as being prioritary for the design and implementation of the macroeconomic programs, in the acceptance of this study, we consider that this approach is in opposition with the prioritization of the national interests – implicitly associated to the proposed macroeconomic administrative model.

Regarding the situation of the macroeconomic resources necessary to revive the economy under conditions of crisis, in the variant of the monetary union, of the centralised system of economic macro-stabilization, given the different capacity of the member states to receive the effects of the crisis, the requirement of resources and the availability of the resources to be allocated for the economic revival differ from one national economy to another; as most of the available resources to be allocated are represented by the monetary mass, this situation can be expressed as follows:

- Under conditions of economic normality:
 $M_u = \sum_i (M_i), 1 \leq i \leq n$ (4)

and

- Under conditions of crisis:
 $M_u = \sum_j (M_j), 1 \leq j \leq m, m < n$ (5)

As the period of crisis gets longer, situation (9) becomes:
 $M_u = \sum_j (M_j), 1 \leq j \leq m, m \ll n,$ (6)

Monetary Studies

Concomitantly, there is an increasing risk that the developing countries will not be able to return to the developed countries the resources they received, which means a long-term transfer of the monetary mass, within the Union, transfer accompanied by the risk of macroeconomic misbalance, by the risk of a more difficult management of the single monetary policy and by the risk of influencing the union budget to the detriment of the development of specific projects; at the “projects” chapter we may also add the higher risk of uncertain development of the running projects.

The process of integration and the goal of consolidation of the union are designed to finalise by the gradual unification of all the components of the system of macroeconomic policies towards the consolidation, at central level, of a unified and functional system of the macroeconomic policies – system which, in the acceptation of this study, may operate at maximum efficiency under the proposed model of administration. At this point, we need to mention that the maximal efficiency of the process of unification is found only in the finalisation of the process of unification. Starting from this aspect, if the project of integration is, for the time being, a theoretical one, then, practically speaking, will there be the expected economic results obtained? In other words, will the integrated economy of the union, under administrative conditions in agreement with the proposed model, have the capacity to ensure the resources needed for the development of the society?

The path towards reaching the goal of integration would better not be influenced by periods of crisis which, in addition to the above motivations, will delay the deadline of the process of integration, increasing the costs and prolonging the periods of risk – risks both for the member states with developing economies, and for the member states with developed economies.

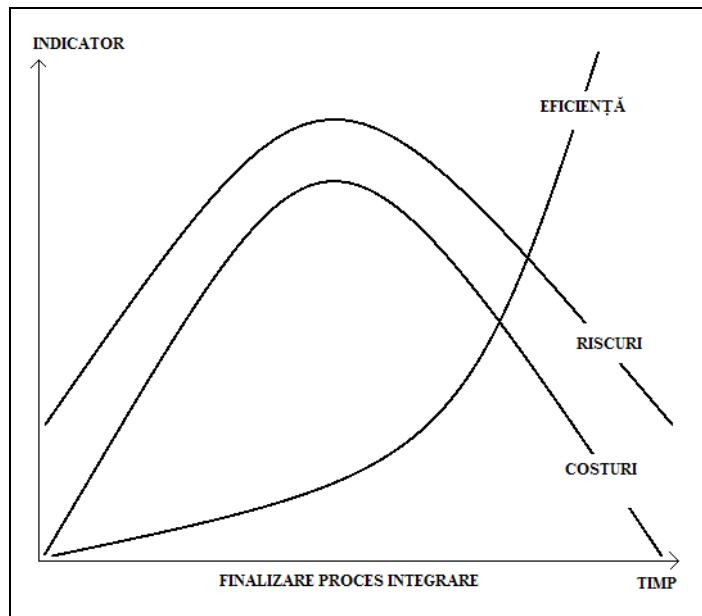


Figure 2. Finalisation of the process of integration

According to Figure 2, there are two variants:

- If, until the process of integration ends, there will be no situations of deep crisis, the process of integration will have the following particularities:
 - o The slope of risks is smoother;
 - o The slope of costs is smoother;
 - o The deadline for finishing the process of integration is essentially according to the set deadline;
- If, until the process of integration ends, there will be situations of deep crisis, the process of integration will have the following:
 - o The slope of risks is steeper;
 - o The slope of costs is steeper;
 - o The deadline for finishing the process of integration exceeds the set deadline.

Starting from the above, we will have to find a way to solve the difficulties with the integration process, if situations of deep crisis occur. There are two possible scenarios:

- The process of integration continues;
- The process of integration is suspended; the values already achieved are preserved, and the project is resumed after the effects of crisis weaken.

4. Evaluation of the scenarios

If, until the process of integration ends, there will be situations of deep crisis, the scenario for the continuation of the process of integration may have higher costs associated to it, higher risks which will possibly be more difficult to manage, while the period of achievement may get longer. Under such situations, such as crisis, the predictability of the economic environment decreases drastically, which may induce additional effects such as higher costs and risks – elements which may delay further the deadline for accomplishing the final objectives of the process of integration and which would amplify the risk of macroeconomic misbalance at the Union level – risk already associated to the crisis.

If, until the process of integration ends, there will be situations of deep crisis, the scenario for the suspension of the process of integration (while preserving the values already achieved and resuming the project after the effects of crisis weaken) might help protection the Union funds which, otherwise, would have been used for higher expenditures. This would also avoid a higher level of general risk allowing a better risk management performance compared to the previous scenario even if the level of economic predictability decreases in times of crisis, the prolongation of the deadline for the accomplishment of the final objectives process of integration being a natural result of this scenario.

In conclusion, if situations of deep crisis occur during the process of integration, in the acceptation of this study it would be preferable to adopt a scenario with the suspension of the process of integration, which will be resumed after the effects of the crisis weaken. This scenario may be called “preferred scenario”.

5. Problems associated to the „preferred scenario”

In the situation of the “preferred scenario”, it is necessary to detail the aspect of “preserving the values already achieved”, which in this study has the understanding of preserving the capacity of accomplishing the macroeconomic and administrative objectives necessary in order to continue the process of integration. This capacity may be associated or not to the maintenance, throughout the entire period of the crisis phenomenon, of the reached level of the macroeconomic standards; this is due to the necessity to prioritize, throughout the period of the crisis phenomenon, the national interests in front of the interests to continue the process of integration, from reasons strictly related to the achievement of an optimal level of the capacity to manage the effects of crisis. Two sub-scenarios are possible in such situation:

- If situations of deep crisis occur and develop during the process of integration, the management of the crisis phenomenon allows preserving the achieved level of the macroeconomic standards necessary to continue the process of integration;
- If situations of deep crisis occur and develop during the process of integration, and the management of the crisis phenomenon doesn't allow preserving the achieved level of the macroeconomic standards necessary to continue the process of integration, from reasons strictly related to the capacity to manage the crisis phenomenon, the achieved level of the macroeconomic standards needed for the continuation of integration will have to be reduced just for the period of the crisis phenomenon; after the final effects of the crisis vanish, the macroeconomic policies will resume the former macroeconomic standards needed for the continuation of integration.

The most favourable scenario is to be determined by analysing the necessary optimal capacity for crisis management.

6. Conclusions

Within the present situation of the international crisis, we consider that the processes of integration would preferably be suspended to the benefit of increasing the macroeconomic capacity to manage the

crisis, for as long as the crisis lasts, plus a safety period needed to avoid inducing any form of macroeconomic misbalance.

During this period it is necessary to acquire the optimal capacity to manage the crisis phenomenon and to prioritize the national economic interests in front of the interests resulting from the necessity to get ready to continue the process of integration.

It is preferable that the optimal moments of finishing the process of integration are associated to a minimal degree of homogeneity (by passing through this stage of integration) necessary in order to achieve an optimal macroeconomic balance of the Union, in other words, with the condition of limiting the heterogeneity as much as possible.

The macroeconomic balance of the Union (or even the macroeconomic balance in general) presumes ensuring, at the macroeconomic administrative level, the conditions required to obtain, from the activity of the real economy, the resources necessary for the development of the society, which is linked to the administrative pattern proposed by this study.

References

1. Lupu, I., Pop, N., Criste, A., Milea, C., Şeitan, S.M., Ivan, M.V., Iordache, F., Ailincă, A.G., Chirilă, V., Chirilă, C., Iarca, I., Mureşan, J.D., Beju, D.G., Filip, A. (2011), *Governance of adopting the Euro in the new EU member states* (in Romanian), CCFM „Victor Slăvescu”, Bucharest.
2. Munteanu, M. (2006), *The European governance and the dynamics of public policies formation in Romania* (in Romanian), „Sfera Politicii” Journal, nr. 126. Foundation Civil Society, Bucharest.