Bulletin of the *Transilvania* University of Braşov • Vol. 6 (55) •No. 1 - 2013
Series V: Economic Sciences

A DIFFERENT EUROPE

T. VIERAŞU[1] G. ONOFREI[2]

Abstract: *This paper makes a theoretical analysis of the European Union, the Euro Zone and Romania's desire to join the European single currency. The controversies between economists regarding the construction process of the Monetary and Economic Union remain large. Is it advisable for Romania to adopt the Euro, given the uncertainty clouds over the currency's future? Can Romania maximize the benefits to adopting the Euro in the future? How can the Eurozone be reformed? What is the future of the European Union and Euro currency? To answer these questions we analysed: how the European Union and the euro currency was formed, we analysed some difficulties the European Union is facing at present, and several very likely scenarios about the future of the European Union.*

Key words: *Romania, the European Union, Euro adoption, European Monetary Union, the euro debt crisis.*

1. Introduction

The European Union is the best thing that could have happened to the continent since the fall of the Roman Empire.

The ideal of a united Europe was simple: by gradually intertwining national economies, every motive for going to war - indeed, the sheer logistics of such an effort -would render war impossible. Who would lay waste to his own factories and fields?

That dream has come true. The continent is administratively and legally one of the strongest economic area in the world. It suffers no internal conflicts, mass poverty or dictatorships. So what is the problem? Europe has reached its capacity. The common currency is crashing, inflated into monetary waste paper by a handful of desperate bankers and business leaders pumping out emergency credits.

In this paper, we analysed a book written by Professor Philipp Bagus of Universidad Rey Juan Carlos in Madrid, called "The Tragedy of the Euro" (2010).

The title of his book frames his economic argument. In his book, Professor Bagus examines two visions about the future of the European Union: the liberal order of free trade and free migration, which would leave the nation-states intact; and the statist ideal of a centralized United States of Europe.

Starting from these visions and after we analysed European Union's history, we created three likely scenarios about the future of the EU using "scenario analysis".

Scenario analysis is a process of analysing possible future events by considering alternative possible outcomes (sometimes called "alternative worlds"). Thus, the scenario analysis, which is a main method of projection, does not try to show one exact picture of the future.

[1] PhD. Student, Dept. of Marketing, Tourism and International Relations, *Transilvania* University of Braşov.
[2] *Letterkenny* Institute, Ireland.

Instead, it presents several alternative future developments consciously.

2. The past - Two Visions for Europe

On March 25 1957, representatives from six countries in Europe signed the Treaty of Rome and established the European Economic Community. Fifty-six years later, 27 nations belong to the European Union. Not only has the geographical area the original EEC covered expanded, but so has the number of EU organizations, which now include the Commission, the Parliament, the Central Bank, the Council, the Court of Justice and the Court of Human Rights.

There has been a fight between the advocates of two different ideals from the beginning of the European Union. Which stance should it adopt: the classical-liberal vision, or the socialist vision of Europe?

The introduction of the euro has played a key role in the strategies of these two visions.

2.1. The Classical-Liberal Vision

The founding fathers of the EU, Jean Monnet (France), Maurice Schuman (France [born in Luxembourg]), Konrad Adenauer (Germany), and Alcide de Gasperi (Italy), all German-speaking Catholics, were followers of the classical-liberal vision of Europe. They were also Christian democrats. The classical-liberal vision regards individual liberty as the most important cultural value of Europeans and Christianity. In this vision, sovereign European states defend private-property rights and a free-market economy in a Europe of open borders, thus enabling the free exchange of goods, services, and ideas.

The Treaty of Rome in 1957 was the main achievement toward the classical-liberal vision for Europe. The treaty delivered four basic liberties: free circulation of goods, free offering of services, free movement of financial capital, and free migration. The treaty restored rights that had been essential for Europe during the classical-liberal time in the 19th century, but had been abandoned in the age of nationalism and socialism. The treaty was a turning away from the age of socialism that had led to conflicts between European nations, culminating in two world wars.

The classical-liberal vision aims at a restoration of 19th-century freedoms. Free competition without entry barriers should prevail in a common European market.

In order to accomplish this ideal of peaceful cooperation and flourishing exchanges, nothing more than freedom would be necessary. In this vision, there would be no need to create a European super state. In fact, the classical-liberal vision is highly sceptical of a central European state; it is considered detrimental to individual liberty.

From the classical-liberal point of view, there should be many competing political systems, as it has been the case in Europe for centuries. In the Middle Ages and until the 19th century, there existed very different political systems, such as the independent cities of Flanders, Germany, and Northern Italy. There were kingdoms such as Bavaria or Saxony, and there were republics such as Venice. Political diversity was demonstrated most clearly in the strongly decentralized Germany. Under a culture of diversity and pluralism, science and industry flourished.

Competition on all levels is essential to the classical-liberal vision. It leads to coherence, as product standards, factor prices, and especially wage rates tend to converge. Capital moves where wages are low, bidding them up; workers, on the other hand, move where wage rates are high, bidding them down. Markets offer decentralized solutions for environmental problems based on private property.

Political competition ensures the most important European value: liberty.

Tax competition fosters lower tax rates and fiscal responsibility. People vote by foot, evading excessive tax rates, as do companies. Different national tax sovereignties are seen as the best protection against tyranny. Competition also prevails in the field of money. Different monetary authorities compete in offering currencies of high quality. Authorities offering more stable currencies exert pressure on other authorities to follow suit.

2.2. The Socialist Vision

In direct opposition to the classical-liberal vision is the socialist or empire vision of Europe, defended by politicians such as Jacques Delors or François Mitterrand. A coalition of statist interests of the nationalist, socialist, and conservative ilk does what it can do to advance its agenda. It wants to see the European Union as an empire or a fortress: protectionist to the outside and interventionist on the inside. These statists dream of a centralized state with efficient technocrats managing it.

In this ideal, the centre of the Empire would rule over the periphery. There would be common and centralized legislation. The defenders of the socialist vision of Europe want to erect a European mega-state, reproducing the nation-states on the European level. They want a European welfare state that would provide for redistribution, regulation, and harmonization of legislation within Europe. The harmonization of taxes and social regulations would be carried out at the highest level. If the value-added tax is between 25% and 15% in the European Union, socialists would harmonize it to 25% in all countries. Such harmonization of social regulation is in the interest of the most protected, the richest, and the most productive workers, who can "afford" such regulation — while their peers cannot. If German social regulations were applied to the Poles, for instance, the latter would have problems competing with the former.

The agenda of the socialist vision is to grant ever-more power to the central state, i.e. to Brussels. The socialist vision for Europe is the ideal of the political class, the bureaucrats, the interest groups, the privileged, and the subsidized sectors who want to create a powerful central state. Adherents to this view present a European state as a necessity, and consider it only a question of time.

Along the socialist path, the European central state would one day become so powerful that the sovereign states would become subservient to them. (We can already see first indicators of such subservience in the case of Greece. Greece behaves like a protectorate of Brussels, which tells its government how to handle its deficit.)

3. The present

Taken as a single geographic entity, Europe has the largest economy in the world. Should it choose to do so, it could become a military rival to the United States. Europe is one of the pillars of the global system, and what happens to Europe is going to define how the world works.

Economically, the European Union is passing through the most severe crisis since its creation in 1957.

When the euro was first proposed, there were those who said it would have to be preceded by a long process of political integration. This was because sharing a currency would imply a high degree of joint decision-making. But a deliberate choice was made in the 1990s not to give the euro such features. The euro was launched as a “currency without a state” to preserve the sovereignty and diversity of member countries. This informed the so-called “Maastricht setup”, which laid the euro's institutional foundations. But as recent events have shown, this institutional framework left the euro area insufficiently equipped to ensure sound economic policies and effectively manage crises.

When the long-sought but controversial implementation of a European Monetary Union (EMU) finally began 20 years ago, it represented a significant accomplishment. Though the idea of a single European currency had been around at least since the Werner Report of the 1970s, the German reunification provided the necessary catalyst. For all the success of that achievement, however, it left behind fateful seeds, which sprouted into the 2010 crisis.

The Eurozone crisis resulted not only from the economic woes of weaker member states but also from flaws in the Maastricht Treaty and from Germany's long-term declining interest in European cooperation.

The United Kingdom's push to renegotiate its status in the European Union threatens the European project. In the past, the bloc granted special concessions to the British, such as allowing them to keep the pound sterling during Maastricht Treaty negotiations. These concessions inspired other EU members to ask for similar treatment -- most notably Denmark, which also managed to opt out of the euro.

At the same time, the mercantilist exporting nations had engineered an immensely profitable fixed-currency zone which kept their exports cheap within importing nations, regardless of whatever imbalances developed. In the pre-euro days, current-account (trade) imbalances between, say, Germany and Italy were resolved by Italy devaluing its currency to the point where German imports became expensive and Italian exports became cheap. That ability to re-balance capital and exports flows was sacrificed by the imposition of the euro on all member nations.

Crisis - and everything related to it - has two names, the first is called "imbalance", and the second is called "confidence". The moment when you create a relationship in which a state or group of states produced tremendously and countries that consume very much against their possibilities – you have created an imbalance.

Europe's present social model is unable to tackle the modern challenges of globalization, and has left Europe with gigantic problems: an insurmountable public debt, a rapidly ageing population, 19 million unemployed, and an overall youth unemployment rate of 18%. The unemployment figures may easily be doubled to account for hidden unemployment.

EU is too rigid, not competitive enough, over-regulated and too far from its citizens.

Europe's social disaster is unfolding while the rest of the world is booming at its fastest rate in three decades. 2004 and 2005 were record years for China and India, which have double-digit growth rates, and for the USA, which fully enjoys the benefits of globalization. The world's economy is booming at an average rate of over 4%, but Europe's growth has stagnated at an inflated 1.5%.

Today we can speak of a North American federation, USA, which is contracting, staying in some way still dominant in planetary affairs. We can talk about China on a path of over-rapid industrialization, aiming at self-sufficiency and seeking new markets and raw materials, particularly in Africa and the Middle East. We can talk about ANZ (Australia and New Zealand), which, after losing its traditional markets (United Kingdom, which joined the European Union and must comply with EU regulations), did the only possible thing - it took a regional approach and developed commercial ties to South America and Asia.

South America, after the Argentinean disaster from 2001 becomes a continent almost entirely socialist. The only way to close the enormous social disparities and move to real democracy is liquidation of local oligarchies with egalitarian regimes. The situation in South America is far better in this global economic crisis compared to the European Union.

Without profound changes, Europe will die economically. Europeans were and are the "tool-makers" - manufacturers of equipment and drivers of heavy industry.

U.S. does not need European products, it has their own. Emerging countries buy less than they sell in Europe. Middle East and Africa are markets that do not yet require the European products. In the last decade, China has become "tool-maker" with technologies purchased from Europe. South America does not have enough capital and needs to take goods that Europe has to offer.

Europe’s production is failing because of bureaucracy and a paralytic tax burden. The excessive tax burden leaves Europe’s workforce too little to lead the standard of living they earn.

Many of the euro-zone countries have violated the Maastricht criteria and in addition, the European Central Bank has violated the Maastricht Treaty by purchasing debt of troubled nations and by giving bailouts to Greece, Ireland, and Portugal.

4. The future

Across Europe, a fundamental debate is taking place about the future of the euro and European Union. Many citizens are concerned about where Europe is heading.

Yet the solutions presented appear to them unsatisfactory. This is because these solutions offer binary choices: either we must go back to the past, or we must move forward to a United States of Europe.

The question is whether the European Union will stabilize itself, stop its fragmentation and begin preparing for more integration and expansion.

The euro crisis reflects the failure of a dead-end policy. In the wake of its economic crash, Greece faces the prospect of leaving the Eurozone, which would have incalculable knock-on effects for the other member countries. Italy, Ireland, Spain, Portugal and even France are all in the grip of a severe recession, which is driving up unemployment. Some critics suggest that the United Kingdom could leave the European Union but remain a part of the European Economic Area, the trade agreement that includes non-EU members, such as Iceland and Norway.

What can be done? To answer this question we analysed three scenarios about the future of the European Union.

a. Maintaining the status quo

In the short term, this is the most likely scenario because, as the recent events have shown us, the visions of European countries about the future are very different.

In the long term, the European Union cannot sustain a common currency without the need for a never-ending series of bailouts, which in the long term would strain the solidarity of the European national populations in the Eurozone on both sides – donor countries and recipients – to breaking point.

The European Monetary Union (EMU) is both a Trojan horse for economic tyranny and an impossible vehicle to sustain; it simply will fail of its inherent contradictions. Put in the simplest terms, the euro will be plundered by the Latin bloc until inflation reaches unacceptable levels or until the Nordic bloc refuses to participate any longer and secedes from the

European Monetary Union — and possibly from the European Union itself.

The euro as presently configured is doomed due to structural imbalances between mercantilist and consumer nations. A two speed Europe with an "euro1 and euro2" system would allow a face-saving demise to euro land’s single currency.

Since the Eurozone leaders have invested their prestige and credibility in the single currency euro, its demise will likely be cloaked in some "face-saving" measure.

We estimate the probability of this scenario happening is 65%.

b. Breakdown of European Union.

The UK Prime Minister David Cameron has pledged to hold a referendum after 2015 on the United Kingdom's role in Europe. He has also said he would reclaim powers London surrendered to the European Union. But more important, the excerpts signal an unprecedented policy departure: renegotiating the United Kingdom's role in the European Union. London has negotiated exemptions from some EU policies in the past, even gaining some concessions from Brussels in the process; this time, it is trying to become less integrated with the bloc altogether.

However, the country would still be required to make financial contributions to continental Europe and adapt its legal order to EU standards, but it would not have a vote in EU decisions.

Some political leaders from the United Kingdom, Greece and other countries consider withdrawing from the European Union to be a good option.

An exit from the euro may imply the issuing of a new national currency. This involves the costs of printing new notes, melting new coins, exchanging vendor machines, etc. There are also logistic costs exchanging the new currency against the old one.

Eurosceptics are citizens or politicians who present themselves as ‘sceptical’ - critical - of the union which they say takes powers away from their national government and poses a threat to their national sovereignty.

There are supposedly two forms of euro-scepticism - ‘hard’ and ‘soft’.

‘Hard’ or ‘withdrawalist’ euro-scepticism is the opposition to membership or the existence of the EU. ‘Soft’ or ‘reformist’ euro-scepticism supports the existence of the EU and membership to the Union, but opposes further integrationist EU policies and the idea of a federal Europe.

One solution proposed by European economists is the breakdown of Eurozone and a return to national currencies across the EU, which would expose each individual country to the unpredictable fluctuations of highly speculative foreign exchange markets.

Without wholesale 'socialism' of euro area members' debt (through a form of fiscal union, ECB guarantees), the current situation is likely to move towards a break-up of the euro. A euro break-up would have dire consequences for all euro area countries: banking systems severely shaken, loss of competitiveness for core countries, massive asset haircuts due to defaults on the periphery, the overall cost of a euro break-up is likely to exceed the bill for the bail-out by a significant amount, creditor countries' reluctance to bail out is not motivated by a lack of means, but by their determination to avoid moral hazard.

We estimate the probability of this scenario happening is 15%.

c. More integration towards the United States of Europe.

In the history of the European Union, starting with the Robert Schuman declaration in May 1950, almost all major initiatives towards deeper integration have been driven by joint Franco-German sponsorship. What is notable, however, is that there is no well-defined and shared Franco-German position on further fiscal and political integration currently.

The political union can, and shall, develop hand-in-hand with the fiscal, economic and financial union. The sharing of powers and of accountability can move in parallel. We should not forget that 60 years of European integration have already created a significant degree of political union. Decisions are made by an EU Council filled by national ministers and by a directly elected European Parliament. The challenge is to further increase the legitimacy of these bodies commensurate with increasing their responsibilities and to seek ways to better anchor European processes at the national level.

European politicians are still trying to save the project of the euro. They design ever-greater bailout packages. Along with the bailouts, an economic government may be forthcoming. Countries may give up parts of their sovereignty.

It is now almost certain that a Treaty revision process will start immediately after the 2014 EU elections. The crisis has sped up the European unification process in almost every respect - fiscal, financial, political. A restructuring of the Eurozone, including a transfer of sovereignty, is essential to end the crisis. This means, however, that a transfer of sovereignty to European institutions is unavoidable in order to impose effective fiscal discipline and guarantee a stable financial system. At the same time, the Eurozone needs closer coordination of financial, economic and social policies in the member countries, with the aim of correcting the structural imbalances within the common currency area.

We estimate the probability of this scenario happening is 50%.

5. Conclusions

The European Union was the best thing that could have happened to the continent. But over the years it has grown into a bureaucratic organism, uncontrollable and impossible to throw out of office. The confidence in the European Union and European Institutions is an all-time low. According to recent polls trust in the EU has, on average, reached an all-time low, now standing at 31% - a 3% decrease since autumn 2011.

The Eurozone needs to undertake “ambitious structural reforms” to boost growth and overcome its never-ending debt crisis.

All Member States of the European Union, except Denmark and the United Kingdom, are required to adopt the euro and join the euro area. Romania is scheduled to replace the current national currency, the Romanian leu, with the euro once Romania fulfils the euro convergence criteria. Given the uncertainty clouds over the currency's future it is not advisable for Romania to adopt the Euro in the near future.

The future of the European Union and euro currency is uncertain. To escape this uncertainty we constructed three socioeconomic scenarios.

In the short term, the most likely scenario is maintaining the status quo with a probability of 65%. In the long term, the most likely scenario is more integration towards United States of Europe with a probability of 50%. A highly unlikely scenario is the breakdown of European Union with a probability of 15%.

Acknowledgements

This paper is supported by the Sectoral Operation Programme Human Resources Development (SOP HRD), ID76945 financed from the European Social Fund and by the Romanian Government

References

1. Bagus, P.: *The Tragedy of the Euro*. Auburn, Ala. Ludwig von Mises Institute. 2010, p. 142.
2. Ferguson, N.: *Civilization: The West and the Rest*. The Penguin Press; 1ST edition (November 1, 2011), p. 432.
3. Ferguson, N.: *The Ascent of Money: A Financial History of the World*. Penguin Books; 1ST edition (October 27, 2009), p. 448.
4. Gibbon, E.: *History of the decline and fall of the Roman Empire*. Publisher: Northpointe Classics, London. 2009, p. 4945.
5. Hayek, F. A. von: *Denationalization of Money - The Argument Refined. An Analysis of the Theory and Practice of Concurrent Currencies*. 3rd ed. London. Economic Affairs. 1990.
6. Hayek, F. A. von: *The Road to Serfdom*. University Of Chicago Press (March 30, 2007), p. 283.
7. Hayek, F. A. von: *The Fatal Conceit: The Errors of Socialism*. University Of Chicago Press, Reprint edition (October 4, 1991), p. 194.
8. Kennedy, P.: *The Rise and Fall of the Great Powers*. Knopf Doubleday Publishing Group; October 2010, p. 704.
9. Mises, L. von: *The Theory of Money and Credit*. Create Space Independent Publishing Platform (April 15, 2010), p. 276.
10. Mises, L. von: *The Anti-Capitalistic Mentality*. Create Space Independent Publishing Platform (November 13, 2011), p. 56.
11. Morris, I.: *Why the West Rules – For Now: The Patterns of History, and What they Reveal About the Future*. Picador, Reprint edition (October 25, 2011), p. 768.
12. Vieraşu, T., Brătucu, G.: P*olls and manipulation.* International Conference on Business Excellence, Editura Universității "Transilvania", Brașov. vol. 2, 2011, pp. 281-285.
13. Vierasu, T.: *Errors and manipulation using polls*. International Conference on Business Excellence, Editura Universității "Transilvania", Brașov. vol. 2, 2012, pp. 281-286.
14. Vierasu, T.: *Influencing public opinion using polls*. MMK 2012, International Masaryk Conference for Ph.D. Students and Young Researchers, vol. III. Hradec Králové, Czech Republic, pp. 643-652.
15. Weber, M.: *The Protestant Ethic and the Spirit of Capitalism*. Create Space Independent Publishing Platform (November 20, 2012), p. 124.