THE LETHAL EURO CRISIS: NOT THE GLOBAL FINANCIAL CRISIS BUT THE EUROZONE GOVERNANCE IS RESPONSIBLE

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Abstract

The paper deals with some experiences as gathered from our research in the area of the European Integration within the EU in general and with the current handling of the ongoing global economic and financial crisis in particular. That in addition to various other negative impacts on the Internal market of the EU has brought with itself also a direct thread to the very existence of its common currency Euro and the entire Eurozone and finally also the EU itself. The paper in more details presents some of the main reasons for these negative development and impact on Euro. It analyses some of the hectic and unsystematic reactions and measures as taken by the EU institutions in order to save its common currency from a total collapse and/or its splitting into two "sub-currencies" as a stronger north and weaker south Euro currencies, Eurozone extra "government", etc. That all after the decade long total ignorance of the Maastricht Treaty and its convergence criteria for the common currency. If its criteria have been observed strictly by all Euro zone members including of course also by Germany and France and/or otherwise all being penalized including those latter ones by the EU institutions there would be no such a deep crisis of Euro as it has been going on for already more than seven years.

Keywords: Eurozone, Euro governance

Some key background information on reasons why especially Euro has been so negatively effected by the global economic and financial crisis

In this respect it is important to realize that the entire process of preparation and implementation of Euro has been a long term process that has originally started as an integral part of the process of the development of the European Economic and Monetary Union (EMU). In view of this relatively complicated inception of Euro as a common EU currency it is important to take into account that the first initial steps towards future common currency have been laid down by the so-called Werner Plan yet in

1971 in order to overcome at that time threatening currency crisis that led to abolition of until that time existing a system of stable exchange rates among major world currencies. As a result, finally a ECU – European Currency Unit was introduced as a special currency unit that was not existing as a real currency but was serving as a kind of some financial and accounting and non-cash unit. However, only after 17 years in 1988 the European Council has adopted a strategy of gradual introduction of a true and real common European currency within the framework of the Economic and Monetary Union and on the basis of the so-called Delors' Report in three relatively independent stages:

1) This first stage of 1 July 1990 – 31 December 1993 was marked by an abolition of any limitations on the free movement of capital within the EU. During this period on 7 February 1992 also the so-called Maastricht Treaty on the European Union has been signed that among others adopted also the famous Maastricht convergence criteria that are serving as the basic criteria for EU member states to become eligible for entering into the European common currency that at that time had not yet had its official name.

2) Again with some delay the second stage 1 January 1994 - 31 December 1998 has introduced some institutional provision for the future common currency viz. the EMI - European Monetary Institute. During this stage also the name of the future common currency i.e. Euro has been approved in December 1995. After another year in December 1996, the design of future Euro banknotes and coins has been approved and in June 1997 the so-called Stability and Growth Pact has been adopted as the necessary precondition for adoption of the future common currency.

However, the most important outcome of this stage has been the decision made by the Council of the EU that on the 2nd May 1998 has - although unanimously - adopted for the fate of the future Euro a rather controversial decision that altogether 11 EU member states are "meeting" the Maastricht convergence criteria and thus they are eligible for adoption of Euro since 1 January 1999. With the effect of 1 June 1998 the EMI has been replaced by the ECB – European Central Bank as the central institution being responsible for Euro as the new EU common currency.

3) The third, last and the most important stage in Euro preparations and implementation started on 1 January 1999. On that date, the mutual exchange rate system among the particular currencies has been unchangeably fixed up. What as it has been proved later was not the most favourable decision for the new common currency as it has thus fixed up also some differences in economics of the member states and thus putting some of them into somehow permanent disadvantageous position. Since that date, also the Euro has become the official "common" currency of the EU for 12

EU member states that adopted the new common currency Euro on 1 January 2002. On that date also again by a certain paradox - with the three years delay after the date when the Euro has become the official currency of the EU - also the new Euro banknotes and coins have been put into real circulation and practical utilization.

Summary of some main problems and weaknesses of the Euro preparation and implementation that made it so volatile vis-a-vis the current global crisis

In a brief summary, the main problems and weaknesses of Euro due to its above complex and long preparation and many surrounding controversies have been as follows.

The entire process of preparation and implementation of Euro as a common currency has been too long lasting for more than 30 years since inception of the Werner Plan so the momentum of the new currency has been during those years to some extent lost especially as far as the citizens of the EU are concerned with a quite natural question – if it is so complex and complicated and with so many compromises what is it all good for

In spite of such a long preparation, one of the biggest systems shortcomings of the new common currency has been the fact that due to above longevity and complexity of its inception, it has been prepared only as a special currency in the form of common banknotes and semi-common coins but without any harmonization in the fiscal and other related policies. So from the very beginning it was only a common currency in circulation but not in any of at least elementary fiscal especially taxation common policy. Due to this fact the Euro in different member states countries has very different "value" so to achieve one of its main objectives i.e. mutual comparability of prices in different countries is absolutely impossible

Another important negative aspect of the new currency has been an unclear and confusing institutional provision and responsibility for the new currency. In addition to the ECB – European Central Bank as the main regulating and control authority for Euro it is also the shared responsibility of all central banks in all Euro-zone member states what in practice means that there is a natural space for a kind of irresponsibility in taking a due care for their common currency. This inconsistency has come up and been manifested in full only since the beginning of this crises when all countries instead of their common approach to protect Euro started mainly to protect their own national interests through various national "initiatives" like e.g. a "scraping car bonus", etc. And it has been so since the very beginning of Euro although not so much demonstrated as after the outbreak of the crisis. Otherwise it could not happen that the catastrophic situation with public finances in Greece has been "discovered" only after more than 10 years since

introduction of the Euro as a common currency and after "permanent and systematic " monitoring of the Maastricht criteria strict observance . And this is not only the grave mistake and irresponsibility of the ECB but also all other institutions that are responsible and/or co-responsible for controlling macroeconomic performance and in particular Maastricht criteria like it is in case of the European Commission but also the Eurostat and to some extent also the European Parliament,

The Maastricht Treaty has had at least on "paper" very demanding, strict and obligatory so-called Treaty obligations i.e. criteria to be met not only by applicant countries in order they could become eligible for becoming the Euro club and/or the Euro Zone members but also by permanently by all Euro zone members. In failing to do so it has been possible to punish the particular country by adequate fines as applied towards violators of any part of the treaty or any other part of the EU legislation. But unfortunately from the very beginning the interpretation of the Maastricht criteria in practice and requirements for their permanent observation has been very controversial, full of double standards etc. What finally led to the current deep crisis of Euro not because the global crisis but mainly due its internal controversies we have just presented.

The disrespect for the Maastricht criteria – originally only two-three countries met them in full - as one of the main reasons for the current critical situation with Euro and/or where was the European Commission for ten years of this disrespect as a guarantor of the basic treaties or the ECB as a guarantor of Euro…?

As mentioned in the end of the previous part, one of the main deficiencies of Euro as a new common currency of the EU has - in addition to some others as described above - been not a very systematic handling and application of the so-called Maastricht convergence criteria. As the key selection criteria on eligibility or non-eligibility of the applicant country for joining the Euro Zone they were supposed to play the key role in selecting future Euro Zone countries and also in achieving a permanent stability and strength of Euro . Basically, those criteria as the Treaty duties and obligations should not allow any different interpretation and/or derogations in case of the Euro zone applicant countries.

Finally, the following specific convergence criteria (in addition to some more general criteria on macroeconomic stability, etc.) have been adopted and have become a part of the Maastricht Treaty:

- the price stability and/or inflation – not more than 1.5% above the level of three best performing EU member states
- the state budget and/or government deficit – not exceeding 3% of the GDP

- the ratio of total government debt to the GDP shall not exceed 60%
- the interest rate should not exceed by more than 2% those of three best performing countries in the above inflation for at least one year before the examination
- participation in the exchange-rate mechanism of the EMS for at least two years without any fluctuation above or bellow that mechanism.

As usual in the EU by a certain unwanted paradox, the biggest problems to meet these criteria had had also those countries like Germany or France that were most demanding in their most tough and demanding formulation. In order to meet them, finally they had to resort to various (temporary) not-so-clear measures in order to pass through them and qualify themselves for becoming future Euro Zone members. Although it had to be clear for them that such their "successful finish" could not on a long term basis secure their non-problem participation in the Euro Zone as according to the Treaty terms all these criteria must be met on a permanent basis otherwise, the violating country will be severally punished by a high financial penalty to be paid for the entire period of non compliance.

Finally, in spite of all various measures often being on the threshold of unfairness, eleven EU member states "met" these criteria but…

The detailed analysis of their performance in the decisive period before the adoption of Euro shows that in full these criteria were met only by 3 (three!?) out of "eligible" 11 EU member states:

- France but it had also some big problems and needed some "innovative" solutions in revaluation of their gold reserves in order to meet the criterion on the budget deficit but finally has not succeeded in their sustainability
- Finland
- Luxemburg.

Again and certainly by a certain paradox we may see that among those three countries meeting the Maastricht criteria in full was missing also the country considered to be a main economic engine of the EU and the proponent of the most though formulation of these criteria!

It is evident that such a composition of three only member states – moreover two of them too small for being considered even as a representative sample or prototype of any future common currency - could not represent the first group of the users of the future EU "common" currency. Hence, in interpretation of individual criteria were finally and again as usual in the EU adopted such various supporting clauses existing in the Treaty as the last resort that made them eligible in even cases that their total debt (on these criterion otherwise failed altogether 7 out of 11 "eligible" countries) exceeded the limit of 60% of the GDP by almost 100% and was hovering on the levels of around 120 % like in case of Italy and Belgium!

But could one imagine that the top representatives and thousands of well over paid EU bureaucrats of the most important EU institutions stationed in Brussels would be paid in Belgian Franks instead in their ”own” new common currency – Euro?!

Hence, finally the selection of eligible countries was a process of various politically and otherwise motivated compromises that enabled to choose those 11 “eligible” countries that “met” Maastricht criteria or as one of “saving” clauses stated “demonstrated that any exceeding above the reference level was only exceptional and temporary and the ratio remains close to the reference value …”.

With the difference of more than fifteen years since those “temporary… exceptional…close to be…” exceptions were used, we could state that most of them remain until now almost on the same high levels as when their were approved. What has changed it was the fact that some additional problems with other criteria have just appeared. Hence for some time there was the strong general tendency to soften some criteria as they are too tough, rigid and as such “breaking” any sustainable economic development in the Euro Zone member states. These tendencies have intensified especially when also France and Germany started to have serious problems with keeping their budget deficits within the required limit of 3% of the GDP. As it was already problem of two main engines of the EU it is not surprising that finally not those two “EU engines” were punished by the severe financial penalties but… the particular criterion was… somehow softened exceptionally for them but not e.g. for new applicants for Euro from the NMS – New member states?! They have to meet original Maastricht criteria in full and on permanent basis. For example Lithuania was originally rejected from joining the Eurozone as it has not met the budget deficit by some fraction of percentage at the time when already most of the Eurozone members were in big recession and out of any Maastricht criteria?! Because in the EU we all are equal .. just some members are more equal!

In order to finish this part on some different application of the Maastricht criteria – otherwise typical approach in the EU - we dare to add only that: only Greece originally was used as an example that the EU authorities concerned were very consequent in demanding the meeting of the Maastricht criteria. Thus in this only case, they clearly demonstrated that Maastricht criteria are not a rubber ones that could be somehow adjusted to any not properly performing countries.. Therefore, later on, Greece had to meet all criteria in full in order to become the 12th member of the first Euro group of states that introduced the “real” Euro on 1 January 2002, This Greece case is a difference to some other much bigger states that even until now have not managed to reduce their enormous exceeding of their total debts as it is in the case of Italy or Belgium, but…Also now during the

critical situation with Euro mostly only Greece is singled out as an example of a country that has not been respecting its obligations towards Euro. As the only country that has been carelessly manipulating with the indicators – but where were the EU institutions like the EC, the ECB or the Eurostat - on the Maastricht criteria and with other important macroeconomic indicators while some other countries not being much better than Greece like e.g. Italy, Spain, Portugal, but also Ireland are mostly not mentioned at all or only very marginally. Although for example according to the latest available statistics Italy has still very high total debt of 132% of the GDP i.e. going up since being accepted for Eurozone with that clause on indicated positive development?!.. It means that in ten years Italy has not managed not to reduce its total debt at all but it has been further growing. Although it has been accepted to the Euro zone on the basis that it has been showing a positive development in this respect?! But where has been that positive development is not clear even until now! And of course it has to be taken into account that just 1% of the GDP of Italy is something completely different than in case of the tiny Greece, but...

Hence there is an immediate question where have been all those already mentioned regulatory and control institutions of the EU like the ECB, EC, EURSTAT, EP that they in 10 years have been unable to discover violators of Maastricht criteria not only in case of Greece but also all other?! But unfortunately also in the EU it is true that we all are equal but some are just more equal especially if you are big and strong enough country.

These and various other criteria and “criteria” for Euro are on the other hand in some sharp contrast with the real situation in using Euro, that in addition to the EU member states has already been used instead of national currency in numerous states that are not EU members and have not met any Maastricht or other criteria as e.g. it is in case of Monaco, Andorra, San Marino, Vatican (even with a special privilege to mint its own coins?!) and also some other countries that are even not EU neighbours like Montenegro or Kosovo in order to mention just Euro “users” in Europe. All these and some other cases have of course nothing to do with any monetary or other common policy of the EU, it is just a politics and towards a tourism business oriented tolerance if we realise that the set of Vatican coins with the face value of 3.88 Euro is possible to buy in the souvenir shop for only not less than 400-500 Euro?! Quite a good business isn’t it?!. However, definitely it is unfair and discriminatory towards the EU own especially new small members that have to meet without any derogations all Maastricht criteria and prove also its sustainability while its own big members did not need that and the same also those external states-users of Euro like e.g. Kosovo or Montenegro. Although in some respects they are bigger than

some of the smallest Euro zone member states like Malta, Cyprus but also Slovenia.

Current situation and problems of Euro vis-a-vis its ongoing lethal crisis that could finally lead even to the demise of this "common" currency

After such a complicated and often controversial development, a careless regulatory and control mechanism from the side of the particular EU institutions led by the ECB and EC it is no surprise that the Euro has been so negatively effected by the ongoing global economic and financial crisis.

At at the outset of the crisis there was existing quite an indifferent and critical only approach towards the Euro crisis that has been most dangerously presented in Greece. On one side especially from the side of Germany there was originally no intention to help Greece to get out from the crisis under the slogan that German workers would be not working till the age of 65 in order the Greeks could retire as before at the age of 55 with many extra benefits, perks, etc. There was forced an opinion that the EU is a market economy with the rules also for bankruptcy that should be applied not only in the case of unsuccessful companies but also of states. But soon after when it has been finally discovered or at least publically admitted that Greece is not the only member state of the Euro zone on the verge of bankruptcy and that most of so-called "toxic" loans to Greece were quite logically from big German and French banks also the general strategy of the EU towards Greece has completely changed.

The saving Greece and thus also Euro and Eurozone has become a case of the EU "solidarity" and mutual help as it has been enshrined in the basic Treaties. It is pity that this kind of the "solidarity" is applied only mostly in case when big members feel to be threatened and not also towards small new member states regarding e.g. a free movement of their citizens, for which we in the NMS had to wait for full seven years, the CAP – Common Agricultural Policy subsidies that are still in the NMS only about 60% of their much more richer old member states' farmers, etc. And so on and so forth.

Finally after many heating debates at the never ending "summits" the EU leaders have come to the plan to save and help to Greece and to prevent anything similar in the future by adopting to main instruments in this respect i.e.:

- A massive loans to Greece as an award for its own deadly reforms. Although nowadays after several years of these "reforms" the country is in much worse situation than it was when the these safety measures have been launched. It is generally agreed that the so-called "Troika" i.e. the European

Commission, the ECB and the IMF have just failed as it had to be clear to everybody who has some knowledge on macroeconomics but…

- A so-called "Euro walls" i.e. large funds that in the future could be used immediately in similar cases to help to any Euro member states in case of similar crisis.

But again it would not be the EU if again also this plan would not be creating some controversies. The first is that the sources for both of them were sought not where the problems were made but under the false and often otherwise overlooked principle of "solidarity" it was sought within all members of the Euro zone and of course without any kind of direct accountability for this disastrous situation of Euro. Only in such a way could happen that e.g. for particular "Euro wall" the countries have to contribute by the following per cents of their GDP:

- Slovakia 6.50%
- Germany 4.78%
- Luxemburgh 2.80%
- Italy 5.02%
- Spain 4.81%
- Greece 5.16%
- Belgium 4.44%
- France 4.60%

What is on these figures interesting it is several facts:

- Slovakia that was at that time the far poorest country in the Euro zone with only the GDP per capita 21,245 USD has had to contribute by the highest percentage of the GDP although it has been in the Euro zone only a little longer than one (!) year before the crisis so much damage in this respect could not be made
- Luxemburg as the richest member with the GDP per capita 78,395 USD has allocation only 2.80% although it has been a founding member of the Euro zone and thus also directly co-responsible for the ignorance of the Maastricht criteria from the very start. Although it is also true that it is only one of 2-3 countries that really and fully met the Maastricht criteria from scratch
- Even more interesting are the cases of those who on the long-term basis and from scratch have still been violating the Maastricht criteria without any punishment so one would be expecting that at least in this case they would be allocated by a proportionally high contribution to this fund that to the large extent has to be created mainly due to their irresponsibility but... As we may see the contributions of Greece, Italy, Belgium, Spain as the main culprits in this respect but also France and Germany as the main architects of the Euro are only between 4.44 – 5.02%. By a certain paradox these limiting figures are of Belgium and Italy who for more than 10 years since inception of Euro have been permanently violating the total debt within the Maastricht criteria as it has been illustrated above on the case of Italy And of course they GDP per capita is between 29.109 in case of Italy to 35.422 USD in case of Belgium.

What is even more interesting, it is the fact there was taken no action in this respect towards the EU institutions that are paid by EU citizens/tax payers like the EC, EP, ECB, EUROSTAT etc. as they have directly been responsible for controlling member states regarding their meeting of Treaties obligations and the EU legislation requirements in full and without any derogations. If this has been the case also regarding Euro and the Maastricht criteria there would not be needed any Euro wall and loans from the Euro zone member states! Such and really a huge Fund of collected fines from the violating member states would have been completely full after the ten years of irresponsible disrespect to the Maastricht criteria. But it could not be the case of the EU being infamous for its special interpretation of the Treaty duties, responsibilities, expected solidarity and generally applied "double standards", etc.

As a result all above EU institutions have not been anyhow negatively effected by their irresponsible behaviour towards Euro. There have been taken no personal consequences towards e.g. the European Commission and it was led for standard two terms by the same President whose first term in years 2004 – 2009 was the most important for successful implementation of Euro. But as we demonstrated it was more about disastrous development of Eurozone than anything else. And it is absolutely true that in this respect it has totally failed in protecting interests of the EU regarding its common currency what is its main Treaty obligation The same is regarding the ECB. What consequences have been taken against its top executives that they let Euro to slide into such a deep crisis threatening the very existence of the Euro. And of course there have been so far no financial cuts to the budgets of these and all other EU institutions for their complete failure towards protecting Euro from its current crisis that is still not over and it really could happen what has been predicted by many experts that sooner or later the Euro could really demise

Conclusion

In conclusion we could state that Euro even after more than thirty years of its preparation and more than decade since its introduction as a "common" currency of the EU has not yet become for various reasons truly and fully a real common currency for all its current 28 member states and its citizens and now it is almost impossible to image any massive enlargement of the Euro zone at all. On the other hand as a consequence also of this its internal position, Euro has not yet become an international currency that would be on par with its main competitor on international markets i.e. the US$. It will need many more years and mainly more systematic and consequent policies and not only monetary to make Euro what it has originally been intended i.e. a common EU and internationally highly

recognized currency. The current Euro crisis as we have at least partially presented it in the previous parts of this paper has definitely not contributed to the respect, prestige and confidence towards this very special "common" currency. It is really a question what will be its future development, "enlargement" and position in the world. It is more than clear that not only Greece, Portugal, Spain, Ireland, Italy, Cyprus, etc. have not definitely beent the last countries that have been so negatively effected by the current Euro crisis. There are many more EU countries as potential candidates to follow their problems and to extend the original PIGS (Portugal, Ireland, Greece, Spain) to current PIIGSC i.e. adding Italy and Cyprus. It could be very soon PIIGSCB and it could also be F for France in connection with its ranking and so on and so forth. And that is already more than a half of the current Euro zone. And there exist even an opinion of many experts that perhaps there will if not a total demise of Euro as a common currency then at least its split into two categories, or ejection of some members like Greece that has already been on the verge of the total bankruptcy, etc. It is simply just not possible to ignore own criteria for so many years and hope that somehow it will be settled down. Especially the European Commission should be in this respect more self-critical and drawn its own lesson from this Euro crisis. On the other hand from the Eurozone member states it is also required more discipline and self-criticism and mainly responsibility. Especially its big and strongest members should be very active not only in searching ways and means how to save their biggest banks that have made bad loans in Greece in billions and billions of Euro but also in their ability to respect by themselves initiated various criteria, safety walls, debt limits, etc. The latest developments clearly shows that although the so-called debt-break of 60% of the total debt of the Eurozone members has not yet been even implemented in full, there are already rumours that some of its initiators are already asking for postponing deadline for reaching that debt ceiling?! The biggest paradox is that it is absolutely nothing new as already in the Maastricht treaty that introduced Euro legally yet in 1992 it has been clearly stated that the countries that want join the Euro zone have to have the total debt not more than 60% of the GDP! And that was already more than 20 years ago and as we know the basic treaties and thus also the Maastricht one is in the conditions of the EU a case of its surrogate constitution?! Hence, why we have needed to introduce now during the lethal crisis the same just under the new name of the debt brake, etc.?! And finally there is just one single question. What system is it if such a really tiny country like Greece with its population of only about 2 - we repeat two - per cent of the total EU population could so lethally threaten such a giant like the EU with its over 500 million citizens?! .

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