

EURO AS A NEW FORCE FOR ECONOMIC INTEGRATION? AND, PERHAPS, POLITICAL INTEGRATION?

Ekonomik Bütünleşme için Yeni Bir Güç Olarak Euro?
Ya da Belki Siyasi Bir Bütünleşme?

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ÖZET:

Euro parasal ve ekonomik çalışmalarda yeni bir trend ya da yeni bir dönem ortaya koydu. Euro'yu ortak para birimi olarak kullanmayı kabul eden Avrupa ülkeleri büyük bir cesaret örneği göstermiş ve Avrupa Birliği tarafından kurulan kuruluşlara güven duyduklarını tescillemiş oldular. Avrupa'da birlikte yaşamışlığın kanlı tarihinden gelen Avrupa ülkeleri tek bir para birimi altında birleşti; ama bu birleşmenin ekonomik mi yoksa siyasi bir birleşme mi olduğu sorusu zihinleri meşgul etmeye başladı. Euro kavramının gelişimine ve yedi yıldan bu yana bölgedeki tek para birimi olarak edindiği başarıya binaen bu makalede bu sorunun üzerinde duracağım.

Euro sadece Euro bölgesi için değil; aynı zamanda para politikalarını Euro'ya göre kuran ama Avrupa Birliği üyesi olmayan üçüncü dünya ülkeleri için de önem arz etmektedir. Euro vesilesiyle gelen birleşme, diğer yerlerde de bölgesel bütünlük umudunun yeşermesine olanak sağlamıştır. Bugün Euro, piyasada yeni olmasına rağmen dünyada en etkin ve en yaygın kullanılan para birimi olması açısından Dolar'a meydan okumaktadır. Bana göre bu, Euro'nun Avrupa Birliği'ne aday ve üye ülkeler için eşit olarak sahip olduğu siyasi bütünleşmenin önemi sayesinde olmuştur. Bazıları bunu akademik yazılarında Avrupa Kömür ve Çelik Topluluğu fikrinin ilk ortaya atılmasıyla öngörebildi. İnsanlar ve karar mercileri arasında tartışmaya sebep olan bu durum bazı Avrupa Birliği üye ülkelerinin Euro'yu para birimi kabul etmemesiyle sonuçlandı.

Anahtar Kelimeler: Euro, Euro Bölgesi, Avrupa Para Birliği (EMU) Avrupa Merkez Bankası (ECB), siyasi bütünleşme, Avrupa Bütünleşmesi, ekonomik bütünleşme

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ABSTRACT:

Euro has introduced a new trend or a new era in the monetary and economic studies. Taking such a step the European countries have shown a lot of courage and trust in the institutions established by the EU. Coming from a bloody history of living together in Europe, the European countries have united under one currency. But is this an economic union or a political one? This is the question I will tackle in this article, in parallel of showing the evolution of the idea of Euro and the success it has achieved until now being the only currency of the Eurozone for seven years now.

Euro is not important only for the Eurozones, but nevertheless it is now important for tertiary countries who have established their monetary policies according to Euro, but who are not members of the Eurozone. This unity has brought hope for further regional unification elsewhere. Today Euro challenges the Dollar on being the most influential and used currency on planet, despite of being new in the market. This happened, I argue, with the importance of the political integration that Euro holds for the EU candidate countries and the EU member states equally. Some have foreseen this, from the first idea of the European Coal and Steel Community, but some have not, in their academic writings. This has brought a lot of debate among the people as well as among the decision makers, which is resulted in non-acceptance of this currency by few EU member countries.

Key Words: *Euro, Eurozone, European Monetary Union (EMU), European Central Bank (ECB), political integration, European integration, economic integration.*

The Effects of the EMU and the ECB in International Finance and European Integration

By introducing Euro in January 1999, the continent of Europe opened a new era in monetary and economic fields. In the beginning, eleven out of fifteen members of the European Union (EU) adopted the new currency, and Greece joined afterwards in 2001, with Great Britain, Denmark and Sweden still not joining the monetary union. The currency entered into the market in January 2001, and became the sole Eurozone currency by February 2002 (Salvatore, 2002: 154). This has been the first time that powerful countries decided to transfer their mone-

tary sovereignty to a bigger supranational institution. The European Central Bank (ECB), located in Frankfurt, in the first place, took the responsibility of arranging the monetary policies according to the twelve countries that accepted the new currency (Rich, 2004: 241).

But this has not been easy to achieve. It is easier to write it in a paragraph then to work in practice. Nearly fifteen years were needed from the Maastricht Treaty, for the Euro to take its first step (Enderlein, 2006: 133); and now that eight years have passed, we can say that Euro is on its second step. After eight years since Euro has entered into the market, we can talk about the success of

Euro, which has served as the key instrument of the EU's Economic and Monetary Union (EMU) as a stability factor for the great European project (Enderlein, 2006). In this paper I will also argue that the monetary integration is a prelude to further political integration in Europe, which may lead to the ultimate aim of the United State of Europe (Bordo, 2004: 163). But the main question is whether this will work out to achieve this dream, or will it just go on with no significant further importance, or just collapse?(Bordo, 2004)

The aim of this article is to give some important information to the reader about the evolution of Euro, to analyze the objectives and targets of the EMU and the ECB, as well as to analyze their success. At the end, I want to answer the question of my thesis, which is whether this integration is politically or economically motivated. I will finish by predicting the possibility of a United States of Europe in the future.

The road to European integration has been long. Starting from the European Coal and Steel Community in 1951, the European countries have worked on the integration of the economies of Europe. Afterwards, in 1957, the European Economic Community was formed, resulting in the transformation to the European Union that we know today. In 1979, most of the EEC countries formed the European Monetary System (EMS), to be able to keep the exchange rates stable in the member states, but the point of reference in this system was the deutsche mark. This re-

sulted in the establishment of the European Monetary Union in 1991 by the Maastricht Treaty (Solomon, 1999: 27). This is the brief history as to how the EMU evolved from 1951. Today, to be able to join the EMU, a country needs to fulfill some important criteria, including price stability, low inflation rate, and low budget deficit. But the European Union offers only "menu du jour, and no a la carte service" (Pill, 2001: 96). This means that the European Monetary Union is being offered as take it all or leave it. To be part of the EMU, there are certain conditions which a country is supposed to fulfill fully, in addition to the obligation to arrange the economy according to the requirements of the EMU, including the acceptance of Euro as official currency, in a couple of years.

But what does this common currency bring? This is a question that is continually asked in different debates on EU integration. It is used from the Euroskeptics to oppose the one-currency policies to the pro-Euro parties to legitimize Euro as a single currency. There are mainly five fields of discussion in the common currency issue. Firstly, a common currency is advantageous, because it is more durable than the fixed exchange rate that some European countries installed before. Secondly, the Euro is more convenient for trade, investment, tourism, etc. for the citizens of different Eurozone countries, which makes the citizens think of more economic security. Thirdly, the price differences are more vivid in different nation states, and this has led to the fourth and the fifth po-

ints, where the ECB has assumed responsibility for financial discipline of participating governments, and the price stability with minimum inflation rate, respectively (Yeager, 2004: 27).

Behind this scheme, we can conclude that the efficiency of the common currency lies in the liquidity of money and the financial markets, (Enderlein, 2006:1135) as, after all, the citizens also save time and money by having the same currency when they travel from one state to another, let alone the investors who don't have to think about the exchange consequences of investing from one Eurozone country in another one. As to governments, the adoption of a single currency brings also the advantage of the reduction in the cost of borrowings from international financial markets (Salvatore, 2002: 154). But above all, the real benefits are economic integration and the rise of the economic and political importance of the EU, as a supranational organization, in the international platform.

But it is true that the expectations are not yet fulfilled, and that there is much to be done. The issue of labor mobility is one of the biggest problems that the EMU encounters today. There is not enough labor mobility as was expected at the beginning and this makes things change slower (Solomon, 1999: 28). This suggests that, although one of the purposes of economic unity is labor mobility, the EU has not so far been successful in this area. The USA is a good example of labor mobility, because if one state suffers

from a shock, the workers move easily from one place to another, which has led to flexible investment policies in this country (Salvatore, 2002: 155). While the labor mobility can be taken as an unsuccessful point, the decrease in the inflation rate seems equally unsuccessful. According to the data I have, by June 2004, the Eurozone's annual inflation rate was 2.4 per cent, - which is still higher from the 2 per cent, which was the goal of the Eurozone - compared to 1.3, 1.2, and 0.9, of Great Britain, Denmark, and Sweden, respectively (Howarth, 2005: 134). On the other hand, the inner trade of the countries in the Eurozone has increased, but the one-fits-all policy of the ECB does not look at individual countries, but rather it looks at overall increase in the Eurozone (Enderlein, 2006: 1136). Overall, we cannot as yet give final verdict on the EMU's success for lack of substantive evidence, especially when we consider that one-size-fits-all policy needs very long time for adaptation. Nevertheless one is for sure that delegating financial sovereignty to the EU has been a great leap forward in the EU, and this needs to be given great importance (Enderlein, 2006).

The ECB was established by the Maastricht Treaty, but it suffered long years of credibility problem, as it was a new institution and had no record on the ability to guarantee its goals. Then the ECB was modeled after the German Bundesbank, to enhance credibility, as Bundesbank was praised for its stability record (Rich, 2004: 241).

The ECB was established with the pri-

mary goal of achieving price stability in the Eurozone at an annual rate of less than two (2) percent (Salvatore, 2002: 158). For the definition of the price stability, the Governing Council of the ECB adopted the following definition: "Price stability shall be defined as a year-on-year increase in the harmonized index of consumer prices for the Euro area as a whole of less than 2% to be maintained over the medium term." (European Central Bank, 1999: 40). This makes the ECB as the most independent central bank in the world, as it is only required to brief regularly the European Parliament, and the latter has no power to influence the former's decisions (Salvatore, 2002: 159). Secondary mandates of the ECB are also to smooth the cyclical fluctuations in output, as well as employment, but as these are secondary, the policies to achieve these should not conflict with its primary goal of maintaining price stability (Rich, 2004: 244). Lately, the ECB has shown success in maintaining the inflation rate around its goal, taking into consideration the fact that, up until 2004, the inflation rate was about 2.5 per cent, which was pretty high against the goal of two per cent which was set by the ECB. A new challenge is waiting the ECB with the accession of the South Eastern European countries to the EU (Rich, 2004). Now that Bulgaria and Romania are there, and that we expect Croatia, Macedonia, Albania, Serbia, Bosnia, Montenegro, and Kosovo to enter the EU, the calculations may change dramatically. Several countries that I mentioned above already use Euro in their market, with fixed

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exchange rates to their national currencies, and Kosovo uses it as its sole currency. Having great economic and political problems, most of the above mentioned countries are a great challenge to the ECB. But right now the best that we can do is wait and see, as the ECB is pretty young and the changes, for good and bad, are occurring rapidly, with the changing nature of the EU.

Politics and Identity in Support of Euro in Particular and the EMU in General

Some academicians claim that there is a higher political than economical pressure and political interest under the adoption of Euro. I completely agree with this view. Firstly, this must be true, as no economic risk taker, especially the state, will take a risk of adopting a new, common, currency. This is true especially if that currency is not well tested in the market. Besides, such a currency poses too many problems to the state and citizens. But, when we talk about interest, we must include the change of identity of the European states. The change of identity in fact has occurred first in Europe. While in the world, and especially in Europe, the currency has a very important identity value for nation-states, as "one nation - one money" principle, this has come to an end with the onset of Euro (Kaelberer, 2005: 283). We have faced this principle from the beginning of the Westphalian system of nation-states. This principle has successfully survived until today. But such a symbolic meaning for nation-states is being lost today

in the center of the origin of the nation-state. (Europe) We shall not take the symbolic meaning of the currency very lightly. I must remind that currency is very important, as people use them every day, and this reminds them the nation they belong to and strengthen their national identity.

The process of de-identification of one citizen with the currency his nation uses, has started far earlier than the introduction of Euro. It has started by electronic currency, dollarization, and checks, but the importance of Euro lies in the fact that it has symbols, it has value, it is printed and circulated in the hands of the citizens who are different from each other ideologically, racially, culturally, ethnically, etc. The introduction of Euro means the breaking of another "taboo" in state relations in the EU, as the historical conflicts or historical problems between the states in the EU are being questioned. This is no doubt a matter of identity for the citizens of those states (Kaelberer, 2005: 165-173).

In an article authored for the closing address of the Cato Institute's 21st Annual Monetary Conference, Vaclav Klaus, ex-president of Czech Republic, claimed that the driving force behind Euro is strictly political, with economic ambitions marginalized or not present at all (Kaelberer, 2005). Although I don't agree with him on his claim that the ambitions were strictly political -as I think that the economic ambitions were also significant, although the political ambitions out-weighted them- I must agree that, before it was adopted, the introduction of Euro had

been seen as a very important step towards European political union (Kaelberer, 2005: 172). Mr. Klaus strengthens his arguments by quoting Romano Prodi, Felipe Gonzales, and Gerhard Schroder, to show how they accepted the Euro. For the sake of originality, I want to quote them directly. On January 1, 2002, the then-European president Romano Prodi said to the CNN: "The introduction of the Euro is not economic at all. It is a completely political step... The historical significance of the Euro is to construct a bipolar economy in the world." (Kaelberer, 2005: 171). Hearing this is very interesting, especially from someone like Prodi, who believes in the power of Euro and draws on the advantages of the change in the understanding of nation-states and perception of Europe in general. Two years before that, on April 9, 1999, he said, speaking to the Financial Times, that "The two pillars of the nation state are the sword and the currency and we changed that." (Kaelberer, 2005) In May 1998, Felipe Gonzales, then the prime minister of Spain, stated: "The single currency is a decision of an essentially political character... We need a united Europe. We must never forget that the Euro is an instrument for this project." (Kaelberer, 2005: 173). The most important statement came from Gerhard Schroder, who, while in the opposition in March 1998, stated that, "the Euro is a sick premature infant, the result of an over-hasty monetary union." When he became German Chancellor just eight months after, he said: "Our future begins on January 1, 1999. The Euro is Europe's key to the 21st century. The

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era of sole national fiscal and economic policy is over." (Kaelberer, 2005: 173). All these statements show how important Euro has become for these European leaders who have praised the project when taking office. Euro has been included in everyday life of politicians and the citizens of the EU. But above all, the above examples signal the force behind Euro, the political ambitions it contains, and the political importance it bears, for the opening of the way to the European political unity. If we compare European politicians and economists, we can see that the politicians are the ones who have pushed for the adoption of Euro and that they see Euro as a symbol for European unity and statehood (Yeager, 2004: 30). Very important European economists, such as Benjamin Friedman, claim that, from the start, Euro has been the pioneer of European unity, rather than the instrument of rearranging economies all over. In fact, Friedman claims that the designers of Euro in the first place started this journey with this project in mind (Yeager, 2004: 28-31).

But does the Euro (meaning, its champions) want to abolish the nation identity at all? No! I categorically think that this is not the aim of the Euro. The best argument for this is the design of the Euro-coins, which include a side where national symbols are printed by nation states. This is an example where the architecture of common European values can be brought together with nation-state symbols. The seven-bridges that are portrayed in the Euro-notes are inspired by

the theme 'Ages and styles of Europe' and show the correlation between the EU and bridges (Giordano, 2002: 515). These images and the name of the currency, continue to have an impact on the building of the new political entity as "European", because, as I noted before, the currency is used by people everyday, and through its symbols and the name Euro, people are remind of their origins in Europe and of their European identity.

The public support, which I think is very important, has been viewed by some as crucial for further European integration, while some underestimate it (Banducci, 2003: 685). But the reason why I think it is important is that the public opinion is the best indicator as to what people think about transferring power from a nation-state to a supranational organization, such as the EU. Scholars that disagree with me argue that the introduction of Euro is the reflection of the will of decision-making elites in the EU, and not the desire of ordinary people who have not been asked for their opinion. They emphasize the fact that the high elite of the European countries reach decisions through bargaining in intergovernmental organizations. Some scholars have observed that the national central banks and the elite are independent from the public and that they are uninfluenced by public opinion.

But if we assume that the public support is important, as I do, then why do people support the EMU and Euro? Or, why they don't? Fine researches have shown that there

is a strong link between supporting the EMU and supporting the integration of the EU in general. Self-interest, one of the main driving forces behind the public support for the EMU, shows that individuals differ in the extent of their support for the EMU. Usually individuals that have an occupation that benefits from the EMU tend to support more than the ones that have an occupation with little benefit from the EMU. Thus it is not unusual that the farmers give greater support for the EMU because of the Common Agricultural Policy than many other economic groups (Banducci, 2003: 687). Some other scholars claim that there is a positive correlation between the support for the integration and the size of the national debt. The deeper a nation goes into the financial debt, the greater the public support for the integration, as people want tighter fiscal policies to help them overcome their problems (Banducci, 2003: 685-688). Of course this cannot be easily applicable in all countries, as not everyone in the EU countries understands the links between the national debt and integration process and perceives the pros and cons of monetary integration in the same way. There are even people who are unfamiliar with such terms. At times when the European institutions perform well, while national governments perform badly, public support for integration rises. This could be seen in South-Eastern European countries, where the support for entry to the EU was rising when governments performed badly. Such examples are Bulgaria, Macedonia, Albania, Croatia, etc. In countries like Croatia and

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Bulgaria, while people had other things to discuss, the support for the EU integration was lower; but when they started seeing the failures of their governments, the support for the EU reached its peak. The central European states' support can sometimes be explained by the same logic. The weakness of their currencies removes their support for national currency and prompts them to adopt the idea of a new and more stable currency. This is why, in Britain, the public support for the Euro is minimal, as the sterling is performing pretty well in the global monetary market. This is very logical when we think from the perspective of 'weak-currency' countries, as, by being integrated to the EMU, there will be equal-say opportunities for small and not-well performing economies and tighter and well-performing economies. This gives the Euro the advantage of raising the national pride and influencing the weak-currency countries (Kaelberer, 2005: 287).

The same can be said for the Euro, I think. In my opinion, the ones that support the EU integration also support the one-currency-policy. The above examples and discussion show that there is a positive correlation between the aforementioned factors.

Conclusion

In this article, I tried to explain the pros and cons of adopting a new, but powerful, currency in the context of the EU. There are a lot of arguments that support the new cur-

rency; but there are equally many arguments advocating a contrary view. This study brings forward a deep analysis of the changes the Euro is bringing to the EU and to the international community as a whole. We have a shift from “one nation – one currency” to “multi nation – one currency”. I then tried to explain the political and economic background of Euro. Euro, as only a currency, has no value without its ideology and institutions, which I explained in the two last parts of the text, by reference to the EMU and the ECB.

It is true that Euro is new and has a long way to go until it becomes well-established. Euro has achieved a lot in a short time compared to the US dollar, but at the same time, it lagged behind with law labor mobility and (low level of?) integration into one market, which are the main goals of the EMU.

As for the support, we can say that the citizens whose country is not doing economically well are more likely to support the EU integration and, thus, to accept the adoption of Euro as a single currency. This is because taking such steps is a matter of sovereignty; so one possibly believes that the supranational organization that is transferred sovereignty will serve one’s economic interest more successfully than the national government.

What we can conclude from the above is that Euro is here to stay, which means that the Euro will continue to be the single currency of the European Union. It is winning

recognition and importance more and more every day, with the rise of European economies and the trust among citizens.

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