EUROZONE: EXIT STRATEGIES

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Abstract

While for Eurozone entry there are convergence criteria, out of this area there are not accompanied by such criteria. Both the Eurozone and the EMU are deficient due to lack of these criteria. They must quickly proposed. People have learned that nothing is eternal, immutable, and after several millennia of history had to know that when they make conventions for creating and recognizing an entity, especially for entry into this entity, they should propose criteria for exit / the lack of recognition of that entity.

Keywords: *convergence criteria, Economic and Monetary Union (EMU), Eurozone*

1. INTRODUCTION

The launch of the single currency project in 1999 was a triumph of politics to economics. Several specialists have questioned at that time, if a group of disparate countries may have a single currency and a common monetary policy without having to give up sovereignty over budgets.

In summer 2011, 17 economists, Nobel laureates in economics have met on the island of Lindau on Lake Constance in southern Germany, to discuss economic discipline.

Participants at the meeting were Robert Mundell - Nobel Prize laureate in 1999 in Economics for his analysis in exchange field; Joseph Stiglitz - Nobel Prize in 2001 for his work on market reactions to asymmetric information and Edward Prescott, Nobel laureate in 2004.

Robert Mundell said: "I do not think the Euro is about to collapse. Europe must go forward into the equivalent of the United States." (Dumitrescu A., 2011)

Joseph Stiglitz: "they have held talks if there is an optimal way to break up the Eurozone. If indebted countries like Greece would exit the Eurozone, their currencies would devalue, which would complicate repayment of debt denominated in euro. When a rich country like Germany would be in a better position to pay their debts, because its currency would probably appreciate against the euro. Nobody said that the Eurozone would make no sense without Germany." (Dumitrescu A., 2011)

Edward Prescott: "I am optimistic. Europe must reform itself. They will discuss, will agree and enforce reforms. Then Europe will register an economic boom and will overtake the USA." (Dumitrescu A., 2011)

Robert Barro, professor of economics at Harvard University and senior fellow at the Hoover Institution at Stanford University (USA), said: "The euro was a noble experiment, but failed. Instead of wasting more money on expanding the system and develop even greater rescue funds would be better for the EU to consider how best to return to a system of individual coins." (Doicaru, A., 2012)

Mervyn King, former governor of the Bank of England believes that "Europe's economic illness is the result of deliberate policies of the EU elites. Eurozone should be abolished to release its weakest members from the burden of austerity and record unemployment."

Speculation about the future of the Eurozone sovereign debt crisis faced by the member countries of this area sometimes reach unprecedented levels. The main "candidates" for a possible exit from the Eurozone were, until now, Greece and Germany, the weakest and the most advanced European economies. (http://www.monitoruldegalati.ro/economie/irlanda-ar-putea-parasi-zona-euro) The strength and beauty of the idea of the euro area, but also wisdom' makers were the main pillars of this construction ideational, who caught an outline determined that cannot be ignored by people or by some institutions that judge biased or negative currency or Eurozone.

2. "THE IMPLOSION" OF THE EUROZONE

Otmar Issing, a German economist is one of the architects of the single European currency and the former chief economist of the ECB from June 1998 to May 2006. (Rechea, C., 2016) His opinions have started to support the euro, as it did in September 2008, in the article "Europe's Anchor of Stability" published on the website Project Syndicate: "As a result of its performance in this year of global financial crisis even the fiercest critics can not deny that the euro is a resounding success". (https://www.project-syndicate.org/commentary/europe-s-anchor-of-stability?barrier=true)

Since then much has happened and nothing can no longer support the claim. On the contrary, exaggerated European Central Bank' "activism", for which the European Treaties do not represent anything, prompted the German professor to intensify criticism of the European monetary authority and wait resignedly implosion of the Eurozone: "It is difficult to forecast how more will continue, but can not go on forever. Governments will further indebt and then castle of cards will collapse", said former ECB chief economist for publication Central Banking Journal (www.centralbanking.com), while the "Eurozone not moved beyond structural incoherence" (http://www.centralbanking.com/central-banking-journal/interview/2473842/otmar-issing-on-why-the-euro-house-of-cards-is-set-to-collapse).

Unfortunately, says Issing, overcome "structural incoherence", not only in the Eurozone but also at EU level is not possible in the foreseeable future because "the ECB destroyed market discipline in Europe." But until complete dismantling of market mechanisms, loose monetary policy of the ECB allowed since the creation of the Eurozone, the establishment of a regime of fiscal irresponsibility, especially in the countries on the periphery of the Eurozone: "After 1999, there has increased speed of convergence even registered the phenomenon contrary" given that "quite a few countries have gone wrong direction". Everything was spent amid the herd behavior of investors, but also to "distrust in applying the *no bail-out in a crisis* principle". It seems that distrust was fully justified, given that the clause *no bail-out* is raped, de facto, every day", as stated Issing, who did not expect the ECB to say "now all countries must respect the rules".
(http://www.centralbanking.com/central-banking/news/2473863/euro-architect-says-ecb-has-destroyed-market-discipline-in-europe)

He said that the main culprits are not bankrupt governments on the periphery of the Eurozone, but just two of them give basic pillars, France and Germany. (Rechea, C., 2016) "Unfortunately, Germany and France have violated the Stability Pact and Growth in 2003 and gave a fatal blow, from which he never recovered," and now "Pact is ignored even by Commission European". After "example" offered by Germany and France, it is no wonder that "quite a few countries, such as Italy, Ireland and Greece, have behaved as they can devalue their currencies further." About Greece, which has been "saved" in 2010, Professor Issing said that "would have been far better to eject Greece from the euro as a salutary lesson for all. The Greeks should have been offered generous support, but only after it had restored exchange rate viability by returning to the drachma" (Ambrose Evans-Pritchard, 2016).

The euro seemed destined to expand across Europe, but at present, this seems no longer valid. The remaining European countries outside the Eurozone no longer wish to switch to the common currency. Seven Eastern European countries that joined the EU (Czech Republic, Hungary, Latvia, Lithuania, Poland, Bulgaria and Romania) announced several years intention to review their obligations to adopt the euro. Euro can be removed in stages as they dropped the individual currencies of countries that have adopted the euro.

3. THE PRINCIPLE OF DOMINO[1]

Two countries of the European Union, United Kingdom and Denmark, have explicit provisions to avoid the common European currency, and popular opinion in these countries expressed strong several times against joining the euro. Sweden has no official provision out of the EU, but the government denied the ability to meet one of the requirements for accession; here, a survey in November 2011 on euro adoption was mostly negative (80% no, 11% yes, 9% undecided).

Fiscal and monetary crisis exists in EU countries was already shown in 2008 with the onset of the global crisis. The option of a monetary union without fiscal union and political union, is an impossible dream. Single currency is inevitably linked to a common central bank with the power of lender of last resort. This configuration creates important features of the Tax Union, as evidenced by the possibility of bankruptcy of state in 2009-2011 for Greece, Portugal, Ireland, Italy and Spain.

Policy response to the every step of the crisis has been to strengthen the European Monetary Union - money loan, granted by the EU and IMF, ECB and involving more fiscal desire of the EU to influence fiscal policies of each government. A common currency that circulates freely in a free trade area, should lead ultimately to a centralized political entity.

EU states in great detail how the candidate countries can qualify to join the euro, but offers no recipe for exit or expulsion from the Eurozone. One possibility would be natural to start removing the least qualified members, to the lack of fiscal discipline or neândeplinirea economic criteria.

[1] See more on http://ziarulfaclia.ro/o-strategie-de-iesire-din-zona-euro/

British example

On June 23, 2016, following a referendum, United Kingdom chose to leave EU. UK is not a member of EMU. Theresa May, British Prime Minister then announced that in early 2017 the country will invoke triggering art. 50 of the Treaty of Lisbon, marking the formal process that will lead to Britain out of the EU. Since that time, negotiations will start announcing extremely complicated and tense than on the withdrawal agreement, whereby the areas to be defined and possible formulas for cooperation between the two entities. Britain has already made public, at least one pre-condition, that of having complete control over labor migration, where London is preparing legislation described as extremely restrictive and ultra-protectionist.

The French example

Hall Paris "seriously working on the project" for a local currency that could be launched in the autumn of 2017: "An impact study is underway and we expect the findings to specify the form of the new currency, how will operate taxation of such Coins" explains Antoinette Guhl, responsible for the social economy within the French city hall. "This could serve payment in canteens for example, to pay municipal services. Creating a complementary local currencies would enable the generation of new economic relations between local actors, "says Lucas Rochette-Berloni, president of" Une pour Monnaie Paris ". This might be called "La Seine" (Sena), the name will be chosen by voting collectively in November 2017. (Apostoiu, C., 2016)

Complementary local currencies are usually launched in smaller territories. Thus, in France in circulation about 40 such coins. Several complementary currencies experienced a resounding success. Thus, "WIR" Switzerland is today used by over 60,000 enterprises and British currency circulating in the Brixton district has contributed to boosting local commerce. However, such initiatives are limited to smaller territories. The Paris would thus constitute a world first. (Apostoiu, C., 2016)

German example

Germany could create a parallel currency – named new Deutsche Mark (D-mark) reported 1.0 per euro. The German government could guarantee that bondholders can convert German government securities in euro in new tools D-mark on a one-to-one to a fixed date, possibly in a period of two years. German private contracts denominated in euros will switch to the new D-mark in the same period. The transition may provide for a period the euro and the new D-mark circulate as parallel currencies. Other countries could follow a path to reintroduce their own currencies for a period of two years. (http://www.financiarul.ro/2012/01/10/o-strategie-de-iesire-din-zona-euro/)

"Germans still retain and use the Deutschmark even though Bundesbank, Germany's central bank, allowing them to always change the old currency into euros." (Cojocaru, B., 2016) Bundesbank notes that 14 years after the adoption of the euro, all remaining outstanding marks equivalent to 6.6 billion euros. German mark, which is almost unknown for many children still can be changed into euros at the rate fixed in 2001. The Bundesbank official recalled that in December 2015 following a survey conducted in November 2015 which established that 54% of residents Germany home old banknotes and coins. Marks may be exchanged looks the headquarters of the German Central Bank in Frankfurt and the regional headquarters of the bank at a rate of 1.95583 per euro mark.

Nobel Prize-winning economist Joseph Stiglitz has stated idea that Italy and other Member States EMU will leave the Eurozone in the coming years and he blamed the austerity policies promoted by Germany for the economic problems of Europe. "Europe lacks the decisiveness to undertake needed reforms such as the creation of a banking union involving joint bank deposit guarantees, and also lacks solidarity across national boundaries" (https://www.welt.de/wirtschaft/article158580872/Solidaritaet-gibt-es-aber-sie-hoert-an-der-Grenze-auf.html), Stiglitz was quoted as saying by *Die Welt* newspaper. "There will still be a euro zone in 10 years, but the question is, what will it look like? It's very unlikely that it will still have 19 members. It's difficult to say who will still belong" the paper quoted Stiglitz as saying. (https://www.welt.de/wirtschaft/article158580872/Solidaritaet-gibt-es-aber-sie-hoert-an-der-Grenze-auf.html)

Nobel economics laureate argues that Germany had already accepted the idea that Greece will leave the Eurozone, noting that he advised both Greece and Portugal, in the past, to exit the single currency. Also, Joseph Stiglitz has shown that the euro and the austerity policies promoted by Germany are to blame for the economic problems of Europe and a division of the monetary union into a northern area (hard) and one south (soft) is the only realistic option for relaunching the European economy.
(https://www.welt.de/wirtschaft/article158580872/Solidaritaet-gibt-es-aber-sie-hoert-an-der-Grenze-auf.html)

Other EU or EMU

Stimulated by Brexit, France, the Netherlands, Austria, and other countries of the Eurozone or the EU announced in one way or another, organizing referendum for leave the EU.

A key issue in the possible return to national currencies of the countries in the current Eurozone is to avoid the drastic reduction in value of government bonds for the weaker members of the Eurozone and Cancellation consequences of the strong euro in all EU countries. (http://epochtimes-romania.com/news/o-strategie-de-iesire-din-zona-euro-expert-economic---137400) This has led massive intervention, on official market of the ECB, as a model of US Federal Reserve (Fed) from 2015 and the measure is to inject money to the market. The policy of "quantitative easing" was imposed by actual and potential losses in the value of government bonds from Greece, Italy and other countries. Governments and financial markets of the EU member states fear that these depreciations will lead to bank failures and financial crises in Italy, Portugal, France, Germany, but also in other countries of the Eurozone.

EU procedure similar to the one output of the EMU[2]

Article 50 of the Lisbon Treaty (Treaty of European Union) establishes, since 2009, the right of every member state to decide on the withdrawal from the European Union in accordance with its own constitutional requirements. Under Article 50 (TEU) first phase of the procedures for the withdrawal of the European Council is the formal notification by the State expresses its intention on its future status, then start internal procedures for adopting the decision, such as the referendum.

The next step is the onset of negotiations between the State of the Union, in accordance with the guidelines of the European Council. The result of these negotiations is given by an agreement which must determine not only the conditions for withdrawal, and future relations between the European Union and State. The Lisbon Treaty does not provide pre-defined objectives or results of the agreement between the Union and the withdrawing State. Therefore, rules will be drawn during the game, according to the progress of the negotiations.

Negotiations on behalf of the European Union shall be in accordance with Article 218 (3) of the Treaty on the Functioning of the European Union, which establishes the responsibility of the European Council to adopt the principles underlying the negotiations, principles on which the Council of Ministers negotiating the terms of output and future relations between the EU and the country concerned. In this process, the European Commission has a minimal role limited to making recommendations on the negotiations.

The main decision-making body is the Council, acting by a qualified majority on the conclusion of the Agreement between the European Union and the applicant State, after approval of Parliament. During the course of these stages, the person who represents the European Council and the Council of Ministers of State who retires not participate in discussions or in the decisions of the European institutions concerning State.

European Union Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing such agreement, after two years of the notification, unless the European Council, in agreement with the Member State, unanimously decides to extend this period. Also, if the State which has withdrawn from the Union submits a new application for membership, it is subject to the current procedures related to all stages of negotiation and implementation of European legislation.

Despite recognizing explicitly the right to voluntarily withdraw unilaterally, there is great uncertainty about how the provisions of Article 50 of the consolidated version of the Treaty on European Union, would be implemented, given that the creation of the European Coal and Steel Community (1951) and to date, no Member State has opted for withdrawal.

In the absence of a precedent, it is expected that the implementation of the provisions on voluntary withdrawal of a Member State of the Union, represents a complex process gradually dominated by extensive negotiations which intersects a set of interests reflected in relations between the government requesting European Union as a whole and the other Member States. (George Forcoș, 2016)

4. CONCLUSION

Returning to old national currencies for some Eurozone member countries will not make them more competitive while money market. And no one knows how they will react optimistic citizens of member countries of the Eurozone, who believed from the outset in force and still believe the euro. 1-1 parity between the euro and the currencies of the countries concerned is just a dream, that was confirmed in the Eurozone was linked to competitiveness and economic strength of the country. Also returning to the national currencies of some countries of the Eurozone will increase the value of all bonds of the countries concerned, ie bonds of Italy and other countries of the southern flank of the EU are likely to increase in value, as concerns about the credibility of the individual could be offset by improved functioning of the whole system.

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[2] See George Forcoș, *Procedura de ieșire a unui stat din UE,* în Ziarul Bursa, 27 iunie

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