

FROM LEU TO EURO

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Abstract: *After analyzing the advantages and disadvantages of adopting the euro, we come to the conclusion that we are not ready to accomplish this objective. Practically, we are not competitive, but adopting the euro should be our goal. In what concerns Romania's national interest, we propose targeting the following domains: automotive industry, ecologic agriculture, education and research. The solution is in the triad: work – organization – innovation.*

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1. Introduction

Euro is the name of the single currency of the member states that take part in the eurozone. The logo is the Greek letter epsilon crossed by two parallel horizontal lines. The choice of epsilon was meant as a reference to the origin of the European civilization as well as to the first letter of the word “Europe”. The parallel lines suggest the strength of the euro. The original abbreviation, “EUR”, was registered at the International Organization for Standardization. At the summit from Madrid in December 1995 was adopted the name of the single currency, “euro”, to replace the old common currency, ECU.

In order to adopt the euro, the EU decided that the members would have to meet strict fundamental prerequisites, as follows:

- a) price stability: in the year preceding the deadline, the inflation rate must be equal or inferior to the mean of the strongest three countries +1, 5%;
- b) public finances: on one hand, a budgetary deficit < 3% than the GDP, on the other hand, a public debt <60% of the GDP at the data of integration;
- c) monetary stability: during two years time, the margins of fluctuation admitted by the European Monetary System must be respected;
- d) the long term nominal interest rate must be lower than the mean of the strongest three countries + 2%.

The responsibility of the development of the monetary and exchange policies was transferred to the Community: the monetary policy is defined and applied in the whole eurozone with the purpose of maintaining the stability of the prices by the European System of Central Banks (EIBS). This is composed of the European Central Bank, which replaced the European Monetary Institute in 1988, and from the national central banks. The Council of the European Central Bank manages the European System of Central Banks; the council is composed of members of the executive board of the EIB, the president, the vice-president and other four members, and of the governors of the national central banks of the member states. Future deals concerning the exchange of Euro against cost accounts of a third party and the devising of the outlines of the exchange policies are the Council's attributions.

2. The advantages and the disadvantages of euro

The advantages of the adoption of the euro are the following:

- 1) The single currency, euro, has resulted into a complete transparency of the costs of goods and services on the European market, which underlines the difference between the value added tax rates and other taxes on goods and services.
- 2) It enhances the competition in Euro land, because the comparison between goods and services is easier to make. A strong competition determines the companies to improve their products. Thus, the manufacturers are selected not from geography, but from quality. This important reduction saves time for the customer, but makes the competition among companies fierce, because now the customer can choose in front of a computer both the country and the company.
- 3) Until 1995, the European countries were divided in countries with hard national currency and soft national currency, depending on the level of inflation and devaluation. Generally, the devaluation of the US dollar leads to the devaluation of the soft national currencies, increasing thus the level of inflation and leading

eventually to the growth of the pressure of competition over the countries with hard currency. In order to increase the exports, a country could devalue its national currency, thus making the export attractive for the internal manufacturers. In order to avoid deficits of the commercial balance or a decrease of production, the other European countries would also devalue the national currency. The phenomenon is known as the spiral of inflation.

Nowadays, after the introduction of Euro, there are neither weak currencies, nor competitive devaluations, nor fluctuation of exchange rate. Trust is reinforced among the participants to transactions inside the eurozone, their costs being reduced. These positive effects should lead to economic growth and efficiency in Euroland.

4) Exchange costs and the costs of risk-hedging insurance of exchange are eliminated in the transactions inside eurozone. When merchandise is imported, the costs are converted in the supplier's currency or in the currency stipulated by contract. The bank has a commission for this transaction. For the companies working with many foreign partners, the significant amount of transactions with goods generated high costs, which had to be recovered by increasing prices, which means that the one who eventually paid for this was the consumer, the buyer.

5) Cutting the currency risk – at least in what concerns the transactions inside the European Union. This fact has promoted the transactions, which had been discouraged by the uncertainty concerning currency exchange.

6) Cutting banking commissions for international payments, due to the harmonization of the national systems.

7) The single financial policy will synchronize the business in Europe, which will lead to real convergence, meaning the elimination of possible tension between countries.

8) EU has created new jobs, not only by increasing competition, but also by price and transactional taxes stability, which are both sources of economic growth.

9) Elimination of restrictions on the payment balance, in the classic meaning: pressure on exchange rate and evaluation of the currency stock; particularly, these restrictions hinder the acceleration of economic growth of some areas, which need it for bringing their income to the level of the Community

10) Political unions have an even bigger effect on the commercial collaboration. This may lead to the idea that not the currency itself is the cause for such a meaningful result, but the fact that the standards for integration into a monetary union are very high. In this way, monetary unions, such as the European Monetary Union, can largely boost economic exchange, and such intensification of commerce brings supplementary profit for consumers that come from monetary unions.

11) Apparition of the euro and the close cooperation between the economic policies of the European Union urged for the necessity of a new type of partnership between the United States, Europe and Asia, based on tight collaboration.

The disadvantages of the introduction of euro are:

- The costs of exchange transaction from national currencies to euro are not at all small. They include modification of reports, vending machines, and ATMs of the banks.

- Banks and companies had to change their soft systems and operating accounting systems.

- The member states of the European Monetary Union no longer have the right to private monetary policies, these being replaced with a single monetary policy, devised by the European Central Bank. There is the possibility that the monetary policy of the European Central Bank disadvantage individual countries, because their economies cannot match the grand European economies.

- The countries inside the eurozone must limit dramatically their expansionist financial policies, as a consequence of the Stability and Growth Pact

- The exchange rate could no longer be used to alleviate the asymmetric shock. For instance, if a country wishes to increase its exports, it will no longer be able to operate on the exchange rate to devalue the national currency. [5]

Generally speaking, the euro meets three important functions of the international currencies: exchange instrument, measurement unit that allows the quotation of transactions and deposit with fixed value for private transactions and central banks. In addition, the euro is a powerful catalytic for structural reformations of all the non-financial domains of Europe, because: the single currency facilitates the comparison of prices, taxes and economies, the euro could encourage the coordination of structural policies in fields as job market, education, professional training and social welfare.

3. Is Romania ready to adopt the Euro currency?

The National Bank of Romania exercises the following functions, as a governmental institution: the banknotes and coins issuance, the currency regulation, supervision and authorization of the financial-banking institutions on the Romanian territory. [2]

The Central European Bank is, probably, the most independent central bank in the world. The fact that it determines the monetary policy of 15 states, independently of their governmental systems, grants it free decision and creates the premises for the bank to follow exclusively its economical goals. The main characteristics of the pan-national, monetary policy are the following:

- CEB determines their goals and measures referring to the money volume and inflation supervision, as well as their interest and cash flow policy, depending on the data gathered from the whole Eurozone, as an average;

- the instruments of the monetary policy and the ways they are implemented are identical for the entire Eurozone;

- the monopoly of the currency issuance and withdrawal passed, since the 1st of January, 1999, from the national banks to CEB, who controls the money circulation.

The mere enumeration of these characteristics raises the concern that a unitary monetary policy, in the accommodation phase, could generate problems later, when these measures are confronted with the heterogeneous realities of each and every state. [1]

The evolution of the PIIGS countries after their admittance to the Eurozone reveals an inconvenient truth: the countries that joined the monetary union from a lower economical position were not able to sustainably reach the economic level of the northern countries. The crisis only showed further on that the adoption of the common currency is not enough to determine the convergence of the productive trends. Due to the massive debt in Euros, these countries are not able now to leave the Eurozone in order to strengthen their economical position, not without enormous costs. This situation is reflected in the growing costs for all the members of the Eurozone.

This is a lesson for the candidates to the common currency: since the hypothesis of the convergence of the productive trends inside the Eurozone was not confirmed, the entrance to the Eurozone should be postponed until the economic productivity is convergent enough with the northern economical zone of the Euro currency, no matter how long this process could take. Nonetheless, it is beneficial to set a relatively closer deadline for the admittance, because it could reduce the productivity delays. [4]

The premature adherence to Euro implies a premature exclusion of the changes of the banking rates system from the process of adjusting the differences between Romania and the other countries of the European Monetary Union. This is what it means to put too much stress on the workforce adjustments and on the prices of the commodities. To achieve this adjustment, Romania's performance coefficient must be enhanced; the social protection systems should be restructured and the work market should acquire more flexibility.

Practically, the adoption of the Euro means to give up the monetary policy before assuming the real need for convergence and its sustainability. Otherwise put, this is before the disequilibrium we are facing today and the lag of our economy behind the main economies of the monetary union are surpassed.

For now, the inflation differential is significant, which makes the interest rates differential, affected by the monetary policy, to be high. The financial depth of the Romanian economy is very shallow, and the high level of the minimal mandatory reserves keeps it falling back.

The adherence to Euro requires a proper forward flow for a real and nominal integration in the Eurozone. In this process, the NBR and CEB monetary policy convergence is essential. [3]

4. Conclusions

In order to adopt the Euro currency, we first have to answer the question: what is the national interest of Romania? The answer to this question would be to increase the standard of living of the population. For this, we need sustainable industry, agriculture, infrastructure, education and healthcare. These domains are, practically, the foundation for durable development in Romania.

The next questions could be: what are the competitive domains of the Romanian economy and how could we make this economy even more sustainable with the lowest amount of investment?

In what agriculture is concerned, we should place the accent on the ecologic agriculture. In what the industry is concerned, the most sustainable sector is the production of furniture and the automotive industry should be considered a strategic sector. To do this, we have to be able to maintain both Ford and Dacia. Instead of exporting wild berries, we should produce comfitures and jams to export later on. We should stop the cheap exports of our tasty vegetables and the expensive imports of low quality goods. As for the health system, the

hospitals and private clinics should receive proper support. Education and research should be considered national priority.

My point of view is that the number of taxes should be reduced to 10 or 12: the VAT, wage tax, profit and dividends taxes, custom and excise taxes, property taxes and car taxations. Locally, some stamp taxes could be paid, as established by the local city halls according to the requirements of the local budget. Supplementary excises should be placed on tobacco, spirits and luxury goods.

In what the infrastructure is concerned, the solution I see would be to have serious competition between the air, land (road and railway) and water (river and maritime) transport. Talking about regionalization, the regions already exist, we just need to act. The triad work – organization – innovation is the proposed solution in order to meet these objectives.

5. References

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