APPRECIATIONS CONCERNING ECONOMIC POLICIES COORDINATION IN EMU

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Abstract: This paper intends to put into light the particularities of economic policies coordination in general and, more specifically, in the Economic and Monetary Union. The coordination of economic policies and especially of the common monetary policy with the national budgetary policies is determined by growing interdependences between member states and by the existence of some public goods within the Union and it aims at a quicker adjustment of shocks and at stabilizating the economy in the Eurozone. Realizing an efficient coordination of economic policies reprezents a necessary condition for achieving a stable and durable economic growth within the Union and it implies increasing the credibility of the authorities, transparency of the economic policies and, least but not last, increasing cooperation (dialogue) between authorities.

Key words: coordination, national budgetary policies, common monetary policy, external effects, economic interdependence, public goods

1. Introduction

The Economic and Monetary Union is an original construction that individualizes itself through the distribution of the economic policy competences between a common monetary power represented by the European Central Bank, according to the federal principle and a budgetary power represented by the national governments, according to the subsidiarity principle. Consequently, the Economic and Monetary Union disposes of a single currency and 15 national budgets (presently). On this background, the coordination of the economic policies in the Economic and Monetary Union focuses on two fundamental aspects, namely: on the one hand, the coordination of the common monetary policy with the national budgetary policies, and on the other hand, the coordination of the national budgetary policies.

The issue of the coordination of the economic policies in the EU constitutes the topic of numerous studies and debates, but at the same time, it is explicitly provided by the Maastricht Treaty as well. Thus, in compliance with art. 2, the common objectives of the European Community are to "promote a harmonious and balanced development of the economic activities, a durable and non-inflationist growth, a high degree of convergence of the economic performance, a high level of employment and social protection, the increase in the level and quality of life, the economic and social cohesion and the solidarity between the member states. With the purpose of achieving these objectives, art. 3 of the Maastricht Treaty shows that the actions of the member states and of the Community must consider the implementation of an economic policy based also on the close coordination of the member states' economic policies. In addition, art. 103 specifies that the economic policies of the member states are "a problem of general interest and must be coordinated".

2. Doctrinary approach

The economic doctrine often addresses the issues of how conducting economic policies and economic policies coordination. At the risk of gross oversimplification, two main schools of thought can be emphasized.

The first is represented by the Keynesian economists. They emphasize market failure and thus the need for an activist management of the economy. Price stability and growth are seen as conflicting objectives, at

least in the shorter term, and macroeconomic policies are directed at guiding aggregate demand in order to achieve an optimal trade-off. The focus is on cyclical stabilisation of the economy. Both monetary policy and fiscal policy are called to contribute to this task, which imposes the need for close coordination in order to obtain the maximum results.

The reference model which allows the analysis of the monetary policy coordination with the budgetary policy, elaborated by the Keynesian economists Hicks and Hansen, is the IS- LM model. The IS- LM model reflects the interdependency relations between the equilibrium on the market of goods and services and the money market equilibrium and allows the analysis of the possible interventions of the state, either through the fiscal- budgetary policy for influencing the real sphere, or through the monetary policy for influencing the money sphere, or by combining the two types of policies. The fundamental conclusion resulting from the IS- LM analysis is the following: coordinating the monetary policy with the fiscal-budgetary policy would have a higher efficiency compared with the situations when the two economic politics instruments would be used singularly.

By contrast, the neo-classical economists highlight the potential for government failure and are more sceptical on the effectiveness of policy intervention. The long-run neutrality of money is stressed. Instead of short-run stabilisation greater emphasis is placed on appropriate incentives and credible institutional design for long-run stability. From this perspective a stable economic environment (and price stability in particular) is regarded as pre-conditions for growth. In this context, the coordination between fiscal and monetary policies would be needed for ensuring the stability of the economy.

These two main schools of thought have exercised their influence in various ways over time, both within the academic environment and in policy circles. The 1960s were no doubt the heyday of keynesians. Faith in macroeconomic demand management was then severely affected in the 1970s and 1980s, both by the theoretical assault of new classical economics and incurrance of stagflation. The Maastricht Treaty and reforms aiming at better control of public finances in a number of countries around the world in the 1990s reflect the new consensus and the lessons learned from the earlier experience.

2. The necessity of economic policies coordination and particularities in EMU

The coordination of the economic policies within the Economic and Monetary Union and especially of the common monetary policy with the national budgetary policies is imperative as a consequence of the interdependences that exist between the member states and of the presence of collective (public) goods within the union.

As regards the first aspect, the increase in the economic interdependences between the member states, it generates an enhancement of the external effects, first of the negative ones, produced by the policy promoted by one member state on other member states. For instance, the aggravation of the budget deficit of a member state may generate an increase in the interest rate on a long term, which eventually will be covered by all the governments when they pay their public debt. Moreover, taking into account the priority objective pursued by the European Central Bank, namely the stability of prices, it is possible that the aggravation of the budget deficit or the public debt of a member state may lead to an increase in the interest rate on a short term by the monetary authority, and the effect would be suffered by all the member states of the Monetary Union. Consequently, it may be ascertained that whereas the economic policy promoted by one of the member states is perceived as unsustainable, there may appear reactions from the markets and the European Central Bank that will be suffered by all the member states of the union. Of course, besides the external negative effects, there are also positive effects in the Monetary Union that are many times neglected or minimized, such as the diffusion of the technical progress, the training of manpower, the creation of some common transportation or telecommunication networks etc.

Concerning the second aspect – the presence of collective goods in the Economic and Monetary Union – these goods are represented by the monetary stability, the credibility of the monetary policy of the European Central Bank, the sound management of the public finances, the stabilization of the euro area's economy etc.

With a view to limiting the negative external effects and to expanding the positive ones and preserving the collective goods, special importance is granted – within the Economic and Monetary Union – to the coordination of the economic policies and particularly to the common monetary policy with the national budgetary policies.

Generally, regarding the coordination of the economic policies, two perspectives stand out [3], namely:

- the so-called “coordination – public good”, which would have as an objective the creation and preservation of international public goods that are based upon rules. For instance, the Stability and Growth Pact is considered a coordination instrument of the national budgetary policies in the euro area and intends to contribute to the preservation of a stabile and non-inflationist monetary union, through the “control of the public finances”.
- the second perspective considers the coordination as a response to the external effects of the national economic policies and would have as an objective the maximization of the collective welfare. Such coordination is called “strategic coordination” and is based on the capacity of governments of exercising discretional policies, based on mutual agreements. This form of coordination is, nonetheless, more difficult to achieve, as it implies the co-operation of the participating parties with a view to elaborating an assembly of policies based on the differential use of the available economic policy instruments.

Therefore, it is estimated that the simplest coordination form is the one based on rules or constrictions, as they could preserve a certain decisional independence, or at least the illusion of such independence.

Within the Economic and Monetary Union, since the national budgetary policies are under the responsibility of the member states, it was considered indispensable to set budgetary rules (provided both by the Maastricht Treaty and the Stability and Growth Pact), which – by ensuring the budgetary discipline – may contribute to a balanced and durable economic growth. The arguments invocated in favour of a set of budgetary rules focus on the display of contagion (contamination) effects, on the background of the promotion of an inappropriate budgetary policy by a state, both between the member states of the union and between the budgetary policy and the monetary policy. Nevertheless, the coordination through budgetary rules shows certain disadvantages that are in fact present in relation to any kind of rules. Thus, it is estimated that a “good” budgetary rule should respond to all exigencies, among which it should: be simple and transparent, be constantly modified, be in conformity with the budgetary results and be constrictive. Besides these exigencies, the specialized literature [4] invokes other conditions as well: the rules should offer certain flexibility to the public authorities and favour – to a certain extent – the economic growth. The flexibility condition implies the fact that, in applying the rule, the implications of some events should be kept in mind (such as fluctuations of the economic growth, unforeseen shocks) on the budgetary results. As for the conditions of favouring the economic growth, it would imply no conflict whatsoever between the application of the rule and the action of the public authority in favour of the economic growth. Taking into account these exigencies that should be met, the construction of a “good” rule is difficult to achieve. For example, the increase in the flexibility reduces the simplicity of the rule, and it is hard for a simple and transparent rule to consider the favourable effect of the action of the public authority on the economic growth. Consequently, the budgetary rules will be eventually a compromise between different exigencies.

With a view to correcting some drawbacks of the budgetary rules, in 2005 (March) the Stability and Growth Pact was reformed, which brings significant changes regarding the preventive and corrective procedures from the original pact. At the same time, the new pact pays more attention to the co-operation between the member states of the union, the European Commission and the EU Council and improves the surveillance of the observance of the budgetary rules.

The amendaments brought to the Stability and Growth Pact (which make the budget laws be more flexible, but also more complex) aim at a better management of public finances, but the manifestation of the positive effects will finally depend on the manner of applying the new framework by the member states of the Union, the European Commission and the EU Council.

One of the most concerning issues and at the same time difficult in the matter of economic policies within EMU is represented by ensuring an efficient coordination of the common monetary policies with the budgetary politics of the 15 member states. In the euro area, the common monetary policy has as priority objective maintaining the stability of prices (defined as an annual increase of under 2% of the harmonized index of the consumer price) on medium term. However, the economic divergences which exist between the member states of EMU make the impact of the common monetary policy become non-similar. For example, the common monetary policy can appear as being too restrictive for the countries which register an increase of the GDP under the increase of the interest rate (such as Germany or Italy), while for other countries, where the increase rate of the GDP is superior to the interest rate (for example Ireland) the

common monetary policy is perceived as being expansionist. As a result, the transmission of the common monetary policy has asymmetric consequences since the national financial systems, the economic structures and the shock adjustment mechanisms are different.

Perceiving differently the interest rate established by the central bank also appears in the case of the USA where Fed establishes the interest rate for all the member states. However, we appreciate [6] that the main difference between the Euro area and USA consists in the high degree of mobility of the working force in the USA and the capacity of the American federal budget of promoting the resource transfers between the states. Such elements do not appear within the European Union where the federal budget has a small percentage (under 1% of the area GDP), and the language barriers, the non-recognition of degrees etc. limit the mobility degree of the working force. At the same time, according to some, the skepticism which is manifested towards the euro currency would mostly be due to the ECB monetary policy, which would not support the economic growth and the structural reforms (such as it is the case of the USA or Japan).

In this context, there were several proposals [6] of modifying some articles of the Maastricht Treaty. For example, the modification of article 105 of the EU Treaty is supported so that the common monetary policy to have as objective, besides the stability of prices, the support of the economic growth and the occupying of the working force as well.

Under the current conditions, EMU is characterized by a bigger number of member states- of different sizes and with different economies from the structural point of view – and also by manifesting some behaviors of the type "clandestine passenger" [5]. Such behaviors appear from the small states, which, especially under the conditions of a macroeconomic shock, benefit from the economic policies for sustaining the economic growth promoted by the bigger states without supporting any cost or take advantage from the interest rate decrease without having a lower inflation. In this context, achieving collective actions which would ensure the economic growth in EMU and would also counter-attack the opportunist temptations, would be of high importance.

3. Conclusions

The economic divergences which exist between the member states of the UEM, and also the asymmetrical consequences of transmitting the common monetary policy call for an efficient coordination between the common monetary policy and the national budgetary policies as well as for important structural reforms for the achievement of a stable and durable economic growth in the Euro area. The history of the international monetary systems proves that the lack of a real coordination of economic policies is the source of the most important monetary instabilities.

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