

## PROS AND CONS FOR ADOPTING EURO

**Scientific Researcher II PhD Elena P DUREAN**

„Victor Slăvescu” Financial and Monetary Research Center,  
Romanian Academy, Romania  
Email: padureanelena@yahoo.com

**Abstract:** *By the establishment of the Euro monetary area, with two large pillars, the European Central Bank and the single currency, for the first time in history “a central European producer of symbol-currency appears, which not only delivers the state from the budget limitations imposed by the former regime (European Monetary System), but also opens for it and its partisans new ways for enrichment, at the expense of the other citizens. This is the true purpose of ECB and this is the intention of its creators” [Hulsmann].*

**Keywords:** *Euro, single currency, adopt the Euro, monetary policy, exchange rate.*

**JEL Classification:** *E6,E5.*

Rotschild<sup>1</sup> (1) was saying: "Give me the possibility to issue and control the money of a country and I don't care about who is writing the laws or about who is governing". In our days, the prophecy of Rotschild seems to match perfectly the case of Greece, but not so much to Germany, which new from the beginning what to do and which was prepared from all points of view; it also doesn't quite match to Romania, which still doesn't know what to do.

We all know that Romania maintained its commitment to adopt the Euro as of January 1<sup>st</sup>, 2019, within the Program of Convergence 2015-2018, transmitted to the European Commission.

This commitment has also been reiterated within the “European Quarter” adopted to foster the coordination of the economic, structural and budgetary policies of the EU member states.

**Several advantages of adopting the Euro** has been mentioned by Miroslav Singer, vice-governor of the Czech National Bank. I support some of these advantages, while I am reticent regarding others. In his presentation, Miroslav speaks exclusively of the benefits of adopting the Euro, while failing to mention that some of them might become dangerous.

### **1. Macroeconomic benefits of adopting the Euro**

- Lower risk for possible monetary and financial turbulences
- “Disciplinary” effect on the economic policies of each individual state
- Lower risk premium for loans to the less developed economies
- Possible stabilization of the long-term interests.

The last two don't seem to be exclusively benefits. Don't such opportunities promote the accumulation of loans, that may eventually hinder the national economy and the even the whole economic development?

### **2. Microeconomic benefits of adopting the Euro**

- No more exchange rate risk related to the Euro zone
- The analysts say that for the companies, the adoption of the Euro will cancel the losses encountered from the purchase and sale of currency.
- Lower cost of transactions
  - Higher and persistent international transparency of the prices

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<sup>1</sup> *The Rothschild family or The Rothschild's* is a European dynasty of Judaic-German origin, which has established banking and financial houses in Europe starting with the late 18<sup>th</sup> century. Today, the business of the Rothschild's are on a lower scale compared to those from the 19<sup>th</sup> century, although they cover several areas such as private assets management, financial counselling, mixed agriculture, wine making and charity.

- Sustained increase of the foreign exchanges

3. Besides these benefits, some of them with quotation marks, as far as I am concerned, I would add the imminent dangers of adopting the Euro, which should be properly managed at the right time.

- **The accession to the Euro zone**, with an exchange rate not fitting the real power of the national economy, might have important consequences.

*If undervalued*—it may lead to overheating of the economy and to inflation, or to economic stagnation and persistent current account deficits (the case of Greece).

*An overvalued exchange rate*—might generate adjustment costs, significantly higher than in the case of an underrated exchange rate.

- **Loss of possibility to use the monetary policy** and exchange rate in the case of asymmetrical shocks.

We all know that once the Euro is adopted, the monetary policy, which sets the market interest rates, will be implemented by the European Central Bank, without taking into consideration the particularities of the individual economies. Furthermore, the accession to the Euro zone presumes the loss of the stabilizing function which the free floating exchange rate may have for the economy. The evolution of the Baltic States and of Bulgaria shows the effects of the impossibility to use the monetary policy and the exchange rate for adjustment in the case of shocks.

We must also consider the strong impact of the crisis in the Baltic States, which found themselves unable to counteract the sudden decrease of the foreign capital inflows by combined measures of monetary policy and devaluation of the national currency.

- **A particular, sovereign, position within the monetary policy**, will never satisfy all the Euro zone countries, just because of their diversity.

Asymmetries can occur in the transmission of the monetary policy. These potentially negative effects can be dampened only by sustained progresses in the synchronization of the Euro zone economies. This presumes the accomplishment and consolidation of the so-called real convergence, structural, financial and cyclic.

The accomplishment of the Maastricht criteria is a necessary condition, but it is not enough. The support from the real economy is decisive.

In his official statement on the adoption of the Euro by Romania, President Klaus Iohannis was saying that “the adoption of the single currency is the most important project for our country, after our accession to the European Union”, while the Prime Minister, Victor Ponta, announced “20‘9 as the time horizon for the adoption of the Euro”.

Such opinions should not have been made public as long as they are not accompanied by a national strategy to this purpose. Who should develop this strategy? All those directly involved in supporting the accomplishment of this goal: the State and the private institutions.

Can, the efforts needed to be done, be enduring? Will the benefits of this action be that fast, so as to compensate the incurred expenditure before causing great imbalances, or requiring further foreign loans? These effects will be felt immediately, both by the State and by the private institutions.

The civil society will not be emotionally affected that much immediately by the shift to another currency, but the size of the income might trigger a psychic reaction. These effects will be felt on the medium-term, when the “bills” of this action have to be paid, because it is the taxpayer who does it.

Romania meets the nominal criteria for accession to the Euro zone, such as those regarding the budget deficit, the public debt, inflation, interest rates or the exchange rate against the Euro. However, we must also consider the positions of those who considered

the target as unrealistic and inopportune, particularly considering the failure to accomplish the targets regarding the real convergence and the structural reforms needed to harmonize with the Euro zone countries, the accomplishment of these targets being slow and delayed.

This is what Deutsche Welle writes: "We know very well that a large lag in terms of real convergence may complicate making business and taking management decisions, in the absence of an independent monetary policy. Furthermore, it is important to prove the institutional efficiency and to prevent imbalances". The Maastricht Treaty doesn't specify explicit criteria for the real convergence, but it presumes decreasing the lag between the EU member countries in terms of development and living conditions (GDP per capita, structure of national economy branches, level of economic openness and labour force costs). The gaps can be narrowed by structural reforms, but the IMF has drawn several times attention that Romania lags at this chapter. We may also mention the possible risks and technical complications associated to the entry of the RON within the European Exchange Rate Mechanism (ERM II), mechanism in which our national currency should "hold on" for two years, before adopting the Euro.

#### **4. Traps of adopting the Euro**

The devaluation of the national currency is usual practice in countries such as Portugal, Greece or Spain, in order to cover the gap in competitiveness and productivity compared to Germany. After the introduction of the Euro, this gap was "filled" by fiscal facilities which were meant to replace the, no longer working, mechanism of devaluing the national currency, which is why these countries accumulated enormous foreign debts.

Obviously, a single currency implies commercial transactions without the exchange rate risks. The removal of this risk, however, advantages only those countries which have high productivity levels and which, particularly, can afford competition on this single market.

As noticed, the Euro allows the states to benefit of new credits, with no requirements of strict discipline, which supports an unprecedented level of indebtedness throughout Europe.

On the other hand, the Euro can also generate inflation, just by "*substituting the national cartels of those making profits from inflation with a European cartel, and to raise additional obstacles in the way of the efforts of the European citizens who would like to get protected against the spoilage practiced by this supra-state*" (Hülsmann, 2012; Hülsmann, 2008).

Many economists say that the people would lose trust in the Euro, should a strong economic shock arise. George Soros said that "the Euro will ultimately bear the bulk of frustrations of the European people due to unemployment, because the people from different economies would accuse the new currency for their troubles".

Unfortunately, the Romanian people don't realize the advantages of, still, having a national currency, and this happens because Romania has been connected to the system for a long time. The wages paid in the private companies are negotiated in Euros, the phone bills are in Euro, even the excises which the state cashes for gas and alcohol are also calculated in Euro. We are already connected to the European currency, and the strongest concern of BNR is to maintain a stable exchange rate.

I consider that it is an immeasurable advantage to print your own currency, to be able to devalue your currency, when needed, or to stop the development of real estate "bubbles". These are the most powerful instruments in the, life-and-death, struggle with the other regional economies.

### References

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