

CONSIDERATIONS ABOUT THE CURRENCY – THE EVOLUTION OF THE EURO

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Abstract:

Misterius and fascinant, the money holds the power. Money have started and financed wars, have developed and crashed economies, joined countries in regions or monetary blocks, stimulated the world commerce, accelerated misbalances between countries but asked also for institutions and special regulations. The money represents the material joy of ordinary people.

The creation of Euro has brought Europe into a spectacularous process of economic integration that is now difficult to asses in terms of dimension and effects. For the first time after the fall of the Roman Empire, most of the Europeans have the same currency. Few were those that in 1995 believed in the creation of the Euro, but their pessimism has been overpassed by facts.

The Economic and Monetary Union is a reach and thoughtful experience. Its success shows the capacity of the Europeans and the institutions to carry on a significant project.

Key words: measure, currency, union, Europe, monetary system, Euro

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THE CURRENCY – A MONETARY PHENOMENON

No matter the organizing system of the society and the innovations in the monetary systems, the currency has played crucial roles and functions. It created and financed wars, has developed and crashed economies, joined countries in regions or monetary blocks, stimulated the world commerce, accelerated misbalances between countries but asked also for institutions and special regulations. And thus, the currency has played the most significant step forward of humankind since passing from the nonmonetary economy to the monetary economy. But today we are contemporary with new developments such as: private currency, the single or the electronic one.

Answering to the chalanges of the currency, the banks, as institutions that connected their initial activity with the monetary start, have done in time significant steps with impact on the functioning of the economies.

Characterized by a diversity of the means and tools of payment, the contemporary economies utilise less the traditional currency – the metallic coin that are now only a part of the monetary mass. Such a tendency entered into evolution beginning with the 80's as a result of new types of investments that appeared on the financial market. Financial instruments that are not representing the currency in the traditional way and can be transformed rapidly in payment means with limited risks and in reduced periods of time have modified the behaviour of companies and the users of the currency in general.

Accordingly, many changes have been undertaken in the structure of the monetary mass, monetary aggregates and the way to use them in the monetary policy. Since they give relevant qualitative and quantitative information about the demand of money, the monetary aggregates allow the application of the monetary policy. In the European Union, the member states have realized, gradually a convergence of their policies since the stability of the prices has become the major common objective. Taking into consideration the monetarist approaches that underline the stable relation between the growth rate on long term of the payment means and the inflation rate, those policies have utilized the monetary aggregates as privileged instruments in order to accomplish the desired objective. The necessity of a monetary structure and coherence results from the complexity of the phenomenon and the effects that can generate to all levels of the economy.

Establishing a national currency by the monetary authority, an international currency by a organizations with such competences, the overlook of the circulation of the national and international currencies, the regulation of the emmissions of material and scriptural currencies as well as the regulation of the circulation of the currency beyond the national borders represents major problems that the monetary structure and organization nationally and internationally need to find solutions.

The money represents the material joy of ordinary people. As long as it exists, it gives a double meaning to life so that people divide their life in one part of earning money and one part of enjoying it no matter that the demarcation line between the two is not clearly fixed.

Marshall has expressed for the first time in a complete manner, the conception of economic science in terms of monetary measure. The part of the social and individual action that is very connected with the accomplishment of the material needs of welfare, is on the one hand a study of the wealth, and on the other hand, a much more important one, a study of the humankind.

The economic life is a continuous fight of the people with the principles of rarity, impossible and unknown, with the limits of the liberty, to transform them into concrete elements, possible and known of the daily life that one can use to accomplish his/her goals.

”The real problem is that normally we do not have a choice between risky situations and concrete ones, but between risky degrees and different possible results” [1].

The French sociologist Gabriel Tarde, trying to prove that the majority of economic categories are in fact common to all social sciences, aims to show that the money is not also an economic phenomenon.

Both Marshall and Tarde considered that the money is important because it serves very well as a mean to measure the human motives. Also Marshall saw the currency as an „indispensable instrument for measuring the contradictory force of the motives”; but it remains only an instrument. „In order to predict what people will do” it is necessary to know the motivational force of satisfactions and sacrifices promised by the alternative courses of actions.

The role the money has played in the conception of the economic phenomena has been enlarged by the „institutionalized” conception that currency is playing a significant role in the economic activity and not only as a passive instrument, but also as an active driver.

INTERNATIONAL MONETARY EVOLUTION

The industrial revolution and the development of market economy have determined a serious amplification of the role of the money in economy; have imposed the development of monetary institution, as well as a more complex structure of the monetary levers and bureaucracy. In a market economy conditions, the monetary evolutions, regarded on long term can actually express the condition of the economic climate that can be stimulative or restrictive.

Regarding the currency along the XIXth century, at mondoeconomic level we have experienced a significant challenge between the supporters of monometalism and bimetallism.

The monetary history shows that the first monetary systems have been mostly bimetalist (silver and gold) while the monometalist systems have been adopted generally in the XIXth century first based on silver, and after the great discoveries of gold reserves in the middle of the century, based on gold.

The bimetalist system, dominant in the first part of the XIXth century has been, in fact, an artificial legislative creation that provoked numerous problems in the world of businesses, functioning effectively only the gold, or only the silver. In order to attenuate the negative effects of the bimetalist system, at the European level have been used the block policies of some countries economically developed, that lead to the formation of the Latin Union and German Union.

The Latin Union, founded by the Convention from 23 of decembre 1865 between france, Italy, Switzerland and joined later on in 1868 by Greece has as declared goal to Unify the national monetary systems in order to overpass the difficulties in the functioning of the bimetalist system. The participating countries to the Convention have adopted a common monetary system, having as

monetary unit the Franc. The circulation of the currencies issued in one country member of the Latin Union was free in the other partner countries. The market power was unlimited for the pay offices from the origin countries, limited at 10 Francs for the pay offices of the partner countries and to 50 Francs for the citizens. The convention of the Latin Union has been Renewed in 1878, 1886 and 1895, without having as a goal the promovation of bimetallism, the production of silver coins being limited starting with 1873.

The German Monetary Union, established by the Convention from 24th January 1857 of Prussia, Austria and the other states members of the German Customs Union had as aim the mentaining of the silver monetarism and the generalization of decimal system, the establishment by the union of metallic parity for each country and the emissions of the following categories of currencies: principal currencies, national and unional, made from silver, commercial ones made from gold and silver; token money made from silver and copper. The principal national currencies and the token money have been destinated to circulate only in the bounderies of the country where they were issued and the principal unional ones have been issued to ease and promote the commercial exchanges beteen the contracting countries, being thus destinated to circulate in all member countries. The commercial currencies used in their relation with other states outside the union of other currencies like the gold ducat issued by Austria.

The convention regarding the German Monetary Union has expired in 1878. The gold monometalism adopted by England in 1819, becomes dominant in the second half of the XIXth century, being adopted by Germany in 1871, Nethelands in 1875, France, Belgium, Italy, Switzerland and Greece in 1878, Austria in 1892, Japan in 1897, Spain and Russia in 1898.

A relatively different and complicated case is the history of the currency in the US, because of historical conditions to create and develop of the federal structure, the internal fragmentations couosed by the developments in the economic development between the industrial North and the agricultural South, but not on the last place because of the extern economic preassures.

In 1875, the US Congress has decided that the monetary union of the American Confederation to use the name dollar. In 1787, through the Constitution, the Congress gained the right to issue money and in 1792 a monetary law was adopted according to which the dollar is issued in a bimetallist system. Initialy, any bank from USA had the right to issue banknotes. In 1860 the number of the banks that issued banknotes with the name "Dollar" were around 2000, fact that was considered by the scholars as "monetary chaos". The phenomenon has been amplified through the emission by the federal state, as a result of the costs of the financing of civil war, of „greenbacks" respectively notes with the function of treasury notes that, starting from 1864 is also issued by the component states of the American confederation. The first moment to clear the chaos is in 1879 when the gold monometalist system is adopted, as a base to issue the Dollar, and the second in 1913, when the federal reserve system is fonded, a system specific to USA, system that in the place of the central bank there are functioning 12 banks, with emission right for the entire territory of the country and lead from the center by the Council of Governors.

The acceptance by the public and the business of paper banknotes replacing the metal ones, as well as the hoarding abandonment in favor of investments in fixed income securities constitue a revolution in the economic behaviour of people.

MONETARY REFORM IN ROMANIA

In Romania, the monetary instability after 1923 has lead to the failed attempts to revaluing the Leu. In stead of expected results, the Leu has devaluated and the capping of the monetary emission has become a breack in developing the economy. In 1927, there have been atempts for the stabilization of the Leu called "factual stabilization" measure that aimed to keep the course constant comparing with foreign currencies. The failure of these atempts to normalize the circulation of monetary circulation and thus to balance the public finance has made necesarry at the end of the third decade a monetary reform known in the literatury as the "*monetary stabilization from 1929*".

The monetary reform prepared in 1928, when by a special law the National Bank of Romania has been authorized to make conventions with other emission banks to contract credits to support the exchange rate of the Leu on foreign markets. Thus, on 16 November 1928, the National Bank of Romania has made conventions with 14 emission banks for a total credit 25 million Dollars, conventions renewed on 20th September 1929 in order to prolong the loans for a another year period, starting from 7th february 1930. Once the authorization of the National Bank of Romania to make such conventions adopted, it has been suspended also the limit of the monetary emissions fixed by the Convention form 1928, that caused numerous problems to the national economy. At 2th of February 1929, the Government has agreed in Paris a convention regarding contracting a loan called "*the Stabilization Loan*" at about 16,8 billions lei, amount from which after taking all taxes and different costs at about 2,2 billions lei, the state has effectively received 14,6 billions lei. The loan has been ensured with the revenues of the state monopolies, administrated by the Autonom House of State Monopolies, especially established with the occasion of contracting the loans mentioned, with the exception of the monopol of the matches, whose lease has been given for 30 years to the Swidish Match Trust. In order to pay back the loan, the annual share was 1,7 billion lei. As a result of the loan, the Parliament of Romania has adopted on February 1929 the Monetary Law considered in the literatury as a special moment in the history of Romanian currency after the First World War.

The Monetary Law from 1929 underlines that the monetary unit of Romania is the Leu containing 10 miligrams of fine gold, 0,900 title. The monetary system has thus been based on the gold monometalism, system adopted through the low from 1890. The law has also stipulated that the notes issued by the NBR were convertible bearer and sight at the disposal of the National Bank in gold coins having a legal course or in gold bullions or in foreign currency convertible into gold. It was thus restored the convertibility that was officially suspended on 1st of July 1917 but in fact the same time with Romania's entering the war.

Also through the Monetary Law from 1929 the Government is authorized to issue divisionary coins of 1, 2, 5, 10 si 20 lei and the total sum of those coins being into circulation does not have to go above 3 billion lei.

As a result of the Monetary Low from 1929 it has been adopted the decision for the reform of the National Bank of Romania. The Reform has been concretized in augmenting the bank capital from 100 to 600 milion lei and the reduction of state participation to its social capital from 33% to 10%.

The start of the *Great Depression* at the beginning of the 4th decade and the already announced signals at world stage even from 1929 have canceled the potential positive effects that the monetary stabilization from 1929 could have had. Only one year after the stabilization, the stability of the monetary system has started to unbalance.

In the first years after 1929, the economic activity has been affected by the Great Economic Depression having after this an ascendant evolution, significant growth and important calitative changes in some fields and towards the end of the 4th decade is considerably affected by the tensions on the international arena, the desire of the government to orientate the economy to answer the needs connected with the territorial integrity and independence of the country.

Romania had as objective to adopt Euro in 2014. The target may seem now unrealistic but it would be a mistake to abandon this objective because of the crisis situation. Romania has traditional links regarding the monetary policy with the European Union, even from 70's, having a well establishet juridical frame with CEE and in 1980's has agreed to *de facto* recongnize this economic block through signing the Agreement for the creation of the mixt Commision Romania-CEE [2].

Romania needs to take into account while implementing anti-crisis measures not to affect the Euro adoption objective, thus implementing measures in agreement with the other measures at the EU level. It is well known that in the global context of mondialization of the capital, the companies not only that they aim having optimum dimension but focus their attention towards consolidating the global production networks [3]. The specialists in globalization define it as a

new epoque in human history where the traditional nation-states have become unnatural business-units, even imposible in a global world [4].

A determinant element in unifying the world states have become the creation of transnational societies. Those are drivers of globalizing the economic activity, contributes to the internationalization of the production using all known forms of capital. L. Voinea considers that “the international society is an economic entity that is composed by a mother-company and its branches in many countries and is characterized by the internationalization of the production based on an international basin of human, material and financial resources while promoting at a global stage of a certain set of specific and own values”[5].

The introduction of EURO at 1st January 1999 was preceded of the adoption of the Council Regulation no. 1103/97, stating dispositions regarding the replacement of ECU with EURO.

The effective transition from ECU to EURO was realized on 16th June 1997 and the Council of the EU decided:

- starting 1st January 1999, all dates in ECU were replaced with EURO at a conversion report of 1:1,
- continuing the denominated contracts in the national currencies of the member states participation got EURO,
- respecting the round of rules established for the expressing of prices in the new currency.

The Euro entered into circulation at 1st January 2002 in 12 member states of the EU. Many people have then put the question of the effect on the East Europe states. Those states still have their national currencies. Their national currencies do not have a fixed exchange rate with the single currency.

The authors of the Maastricht Treaty did not choose a name for the future currency. There have been discussions regarding the name of the future currency so that this should not give any pronunciation difficulty in any of the Community languages.

After few discussion months, in December 1995, the European Council from Madrid decided that the name of the currency will be Euro, name that symbolizes Europe and that this should be the same in all official languages of the EU.

The passage to Euro has brought benefits not only to the entrepreneurs, big companies, service providers but also to the consumers. But recently, asked about the future of Euro, the French economist Charles Gave considers that “Euro will stop existing in less than one year. The whole system has been dysfunctional from the beginning” (26 June 2011-Capital.ro)

Charles Gave believes that returning to the national currencies will contribute to a more efficient allocation of the resources and to improving the investments. “Abolishing Euro is the best thing that may be done for the markets” the economist concluded.

Gave’s declaration is more pessimistic even than the one of Nouriel Roubini that gave to Euro only 5 years. Nouriel Roubini, the president of Roubini Global Economics considered tat Euro Zone might fall because the Economic and Monetary Union did not meet in totality the conditions of the optimal monetary region.

Nouriel Roubini shows that the economy is affected by the reduction of the consume, especially because of the firms are reticent to new employment and infestations that are expected to give a new impulse to the economy and there is almost nothing to do about it, the only solutions being the saving of the money, a substantial growth or using the dangerous inflation solution. But if the consume of the population and firms do not start again, the risk is to remain in recession.

EURO INFLUENCE ON THE ECONOMIC EVOLUTION

Before adopting Euro the monetary policy will be very strictly monitored by the European institutions in la larger process that has many stages. At least once in two years the Commission and the European central Bank adopt a report over the progress of the member states in what regards the Maastricht convergence criteria. If the Commission signals the convergence criteria are being met

can propose to the European Parliament the entrance into Euro zone of that state. After the Parliament makes the decision it will also reach the Council of Europe that has the final decision. Also, the Council will establish the exchange rate after consulting the European central Bank. This stage marks the entrance into the Exchange Rate Mechanism II.

The first step for Euro was the adoption of a convergence plan that contains the details and the stages for adopting Euro. A clear and well structured is aimed to increase the chances for adopting the single currency without significant economic misbalances, having the advantage to be a positive signal for the foreign investors. At this moment, the world economic crisis seems to create some problems in following the plan.

The forecasts for the states that have adopted the single currency are different, the supporters of Euro considering that both the business and the consumers have benefits while the scepticals mention that euro could have an unsecure future.

But what it is sure is that there is a significant distrust in Euro. The significant part of the Germans does not trust Euro because of the crisis this currency is facing, connected with the quasi-suffocation of the Greek economy. Even the British finance minister warned that if Greece goes bankrupt then the Euro will not last unlimited.

Europe is facing a dilemma. Last years the international financial markets did not give credits to Greece. In order to save Greece, the EU intervened with 110 billions Euros. With all these, the Greek debt has become bigger in spite of the severe budgetary austerity measures imposed by the government. But maybe one of the motives of accumulation of those dues is actually the inefficient system to collect taxes. According to the plans of the IMF and EU, Greece should be stabilized until the end of this year.

No matter how rapid will be the process of adaptation of the central and east-European countries to Euro in the relation with the EU market, the new single currency will attract the east of the continent towards the west.

CONCLUSIONS

The monetary policy imply that "European System of Central Banks to support the economic general policies of the EU" [6]. The necessity of a monetary structure and coherence results from the complexity of the phenomenon and the effects that can generate to all levels of the economy.

Establishing a national currency by the monetary authority, an international currency by a organizations with such competences, the overlook of the circulation of the national and international currencies, the regulation of the emissions of material and scriptural currencies as well as the regulation of the circulation of the currency beyond the national borders represents major problems that the monetary structure and organization nationally and internationally need to find solutions.

Through the Economic and Monetary Union the authorities of the EU need to find solutions rapidly and efficient for the ideological distance from the centralized monetary policy and the maintaining the fiscal policy at the national level.

If we analyze the objectives of the Economic and Monetary Union of the European Union, we also have to take into account the internal motives of each member state. We have to eliminate the uncertainty, the high costs and we have to be able to avoid and / or manage the monetary fluctuations especially in situations like today's economic crisis.

Thus, Romania needs to acknowledge the fact that a single European currency allows first of all the overpass the actual internal fragmentation of the market and so to strengthen the national position in relation with the international

Many are asking if we have enough reasons for adopting Euro, or if that is or not in Romania's advantage? (*taking into account the example of Greece*). A significant part of the new EU citizens are attracted by the idea to adopt a strong currency while the nostalgic regret the national currencies and the sceptics contest the efficiency of Euro.

The reality shows that introducing Euro has both benefits and risks. As the experience of the old member states, the main benefits of the Euro Zone are: reducing the costs with money exchange, reducing the currency risk, preventing speculative attacks, reducing the interest rate for credits and a coordinated monetary policy.

A single currency generates also economy of time and money for the population and firms inside the Monetary Union, facilitates and multiplies the commercial exchanges in the interior of the zone, stimulates the transaction volume with stock holdings and convertible bonds from the member states.

The integration of the monetary and financial market will thus lead to a increase of the growth rate for medium and long term of the countries in Euro zone. The currency has also effects on the external commercial relations with countries that are not part of the Monetary Union and on the international capital flow. The Romanian citizens and the firms with commercial activities in Euro Zone will fill gradually the real advantages of introducing the single currency through the simplification of the bureaucracy, the contracts and the finances and accountancy.

The risks associated with introducing Euro are few but have a direct impact on the daily life and financial system. The most noted is the generalized raise of prices that is connected with the lack of familiarity of the population with the new prices or better said the process expressed in the new currency, is generated also by the speculation of the round off process.

Another provocation addressed to the EU economies is the well calibration on the short term of the liquidities in Euro at the level of the bank system, having into account a cash demand for the single currency.

The Euro critics showed the warning that the change of the national currency brings a loose of the control and the decision power about the monetary problems and the flexibility of the decisions that would allow us to protect the economies from the external shocks.

For the moment, the new members still trust the unique currency. The trust of the business environment in the European currency is the best barometer. Romania can still optimistic about the horizon of adopting Euro if an efficient financial policy will be implemented.

ENDNOTES

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