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Dysfunctionalities of the Economic and Monetary Union

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Abstract: *Shortly after the outbreak of the financial and economic crisis, major defects have emerged in Europe as regards the functioning of the "EMU system" (Baldwin and Giavazzi, 2016), on the one hand, of a structural nature, regarding the Community institutions, to the joint decision-making process and the internal coordination mechanisms of the EES and, on the other hand, to issues stemming from the essence of the functioning of the EU internal market.*

Keywords: *economic, development, policies, economic union, monetary union.*
Classification JEL: *O10; F45; J08.*

I. Introduction

The Economic and Monetary Union is a generic term referring to several different policies aimed at promoting growth in the EU and maintaining the strength and stability of the euro. The Economic and Monetary Union covers monetary policy ("monetary union"), budgetary policy and economic decision-making ("economic union").

The European Monetary Union has been the subject of one of the two Intergovernmental Conferences of December 1990. The treaty provides, for the achievement of the economic and monetary union, three stages:

Stage I, which took place between July 1, 1990 - December 31, 1993, where there was talk of the free movement of capital between the Member States, better coordination of economic policies and closer cooperation of central banks;

Stage II, from January 1, 1994 - December 31, 1998, which started with the establishment of the European Monetary Institute and there were made technical preparations for the adoption of the euro, but the convergence of the economic and monetary policies of the Member States was followed in order to be able to ensure the stability of prices and sound public finances;

Stage III, which was initiated on January 1, 1999 and considered the fixing of exchange rates and the introduction of the single currency on foreign financial markets, followed by the introduction of euro coins and banknotes on January 1, 2002.

By joining the European Union, Member States undertake to adopt the euro, within a certain number of years, when they meet certain convergence criteria.

II. Economic and Monetary Union Presentation

For the Economic and Monetary Union to work effectively, it is needed that all EU countries, especially those in the euro area, to comply with the rules agreed upon jointly. We are talking here mainly about ensuring the stability of public finances, in other words, about finding an appropriate balance between income and expenditure at the level of national budgets.

Table 1. Monetary and economic Union

	Monetary Union	*Economic Union*		
	Monetary policy	*Budget policy*		*Making economic decisions*
What does it do?	Price stability: fixation of euro area interest rates so that inflation remains below 2% - Circulation of euro banknotes and coins	Public finances (the level of national governments spending and indebtedness)	Taxation (government revenue)	Decisions on education systems, labor markets, pensions, etc.
Who's responsible?	The European Central Bank (ECB) sets interest rates and prints euro banknotes - National governments issue euro coins in the quantities approved by the ECB	National governments - EU sets common rules on national deficits / debts	National governments	National governments – The EU coordinates and makes recommendations during the European Semester
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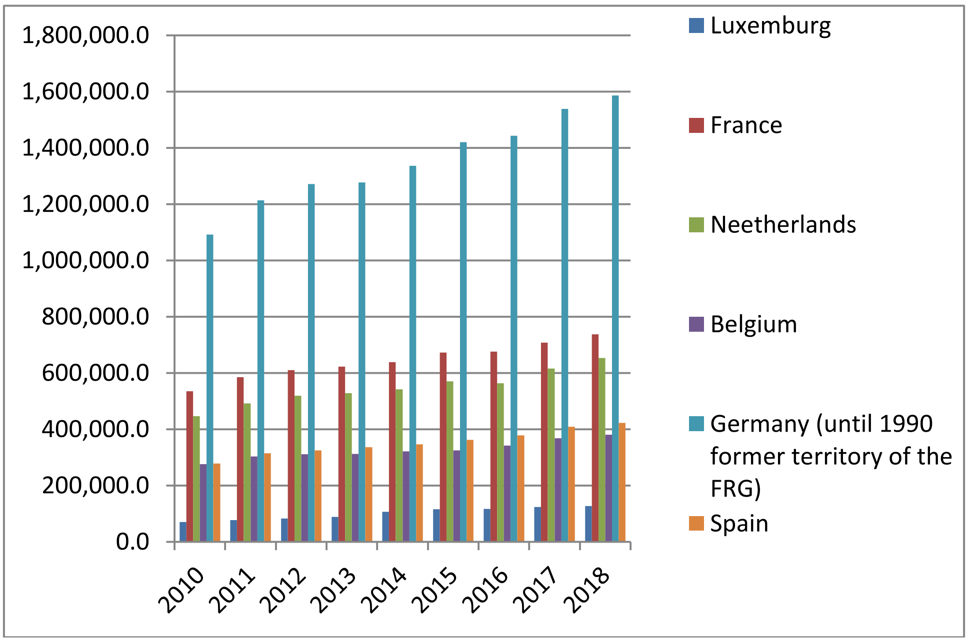
Source: Author's assessment

Figure 1. Exports of goods and services



Source: Eurostat

For the period 2010-2018, the total value of the goods exported, for the analyzed countries is presented in the table below:

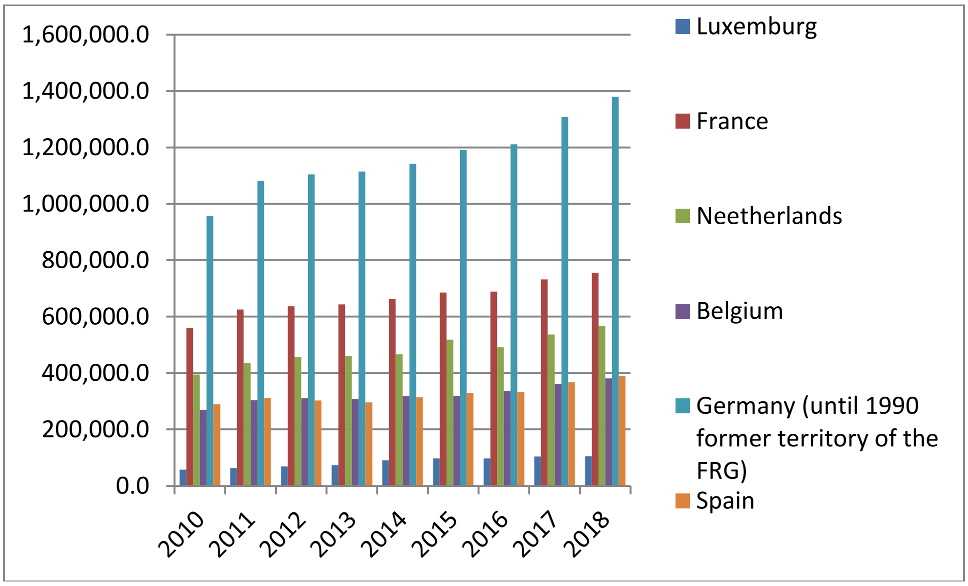
Table 2. Total value of exported/ imported goods (millions of euros)

Period (years)	The country	Total value of exported goods (millions of euros)	Total value of imported goods (millions of euros)
2010-2018	Luxemburg	906,506.8	755,779.3
2010-2018	France	5,782,047.0	5,989,964.0
2010-2018	Neetherlands	4,927,025,0	4,325,698.0
2010-2018	Belgium	2,935,529,9	2,906,526.6
2010-2018	Germany	12,174,584,0	10,487,916.0
2010-2018	Spain	3,169,455,0	2,932,745.0

Source: Author's assessment

A brief analysis of the data presented shows that the highest value of the exported goods was recorded by Germany, and the lowest value by Belgium - Luxembourg.

Figure 2. Imports of goods and services



Source: Eurostat

The highest value of imported goods was registered by Germany, and the lowest value was registered by Luxembourg, province of Belgium, followed by Belgium as a whole country.

From the analysis, we identified that the imports had a higher value than the exports to France, where the total value of the imports during the period 2010-2018 was 5,989,964.0 million euros, and that of the exports of 5,782,047.0 million euros, resulting in a difference of 207,917 million euros.

2.1 Dysfunctionalities of the Economic and Monetary Union

In terms of UEM architecture and functionality, the dysfunctionalities have greatly complicated the internal management of vulnerabilities and imbalances in the EU and have thus generated a chain of mistrust between the Member States and the European institutions, between the northern and the peripheral areas, between governments and citizens, finally weakening the trust in the European project.

Types of dysfunctionalities:

a) Structural-institutional dysfunctionalities, which refer to the European monetary construction, and derive from the heterogeneity of the community institutional structures.

b) Dysfunctionalities associated with the European single market system, which are unequal and unequal, but also a national approach of some components of the European single market.

If we talk about the Economic and Monetary Union, we have to translate that this is a generic term that refers to several different policies aimed at promoting growth in the EU and maintaining both the power and the stability of the euro. The Economic and Monetary Union keeps under its umbrella the monetary policy ("monetary union"), the budgetary policy and the economic decision-making process ("economic union"), these policies being managed either by national or European authorities or by a combination of the two.

Table 3. Policy

<table>
<tr><th>Policy</th><th>How it is managed</th><th>Conclusion</th></tr>
<tr><td>Monetary

Policy</td><td>For the proper functioning of the Economic and Monetary Union, it is necessary that all EU countries, especially those in the euro area, to comply with the agreed rules. An important aspect is ensuring the stability of public finances, in other words, finding an appropriate balance between expenditures and incomes at the level of national budgets.</td><td rowspan="2">The Economic and Monetary Union includes a number of essential rules on public finances, jointly developed and adopted by all EU countries. In order to maintain the economic stability, these rules are implemented by the European Commission. The main instrument for guiding and coordinating the decision-making process in the EU countries is the Stability and Growth Pact. The pact was launched in 1999 and consolidated since 2011.

For the Economic and Monetary Union to work effectively, it is necessary that all EU countries, especially those within the euro area, to abide by the agreed rules. The problem is raised especially with regard to ensuring the stability of public finances, in other words the aim is to find an adequate balance between expenditures and incomes at the level of national budgets.</td></tr>
<tr><td>Budget policy</td><td>The responsibilities of the management process fall within the responsibility of the national governments, but the decisions regarding the public finances that each country in the EU takes can affect the Union as a whole.</td></tr>
</table>

Source: Author's assessment

If we follow the process of the Economic and Monetary Union, we must observe both the advantages and the costs, or its dysfunctionalities. Among the most important advantages of the Economic and Monetary Union are the ones presented in the table below.

Table 4. Advantages of the Economic and Monetary Union

Advantages	What does it really mean	Aim
The Economic and Monetary Union is the basis of the euro	It targets monetary policy (price stability and interest rates), economic policy and various aspects of budgetary policy (to limit government debt and annual deficits).	The aim is to provide a stable economic environment favorable to growth for the euro area and the single market, one of the main priorities being to maintain a strong and stable currency.
The Economic and Monetary Union ensures price stability	For the monetary policy within the euro area, including the printing of money, responsible is the European Central Bank, which is an independent body. Its main objective is to maintain the stability of consumer prices and to protect the value of the euro by establishing and adjusting the interest rate on the loans granted by the ECB.	It aims to keep inflation below 2% in the medium term, a level considered low enough for the citizens to fully benefit from the price stability.
The Economic and Monetary Union supports growth	Coordination of economies and markets at European level brings all the benefits associated with a large space, but also with a common framework for improving the internal efficiency, competitiveness and robustness of the EU economy in general and of the individual economies of the Member States	Creating conditions that ensure greater economic stability, for economic growth and job creation
The euro currency is practical for citizens	The benefits of a single currency are obvious to anyone traveling in the 19 euro area countries. E.g,. Last but not least, the European Central Bank has consistently ensured price stability in the euro area, thus taking care to better protect the purchasing power of consumers.	It was found that the adoption of the euro led to the elimination of costs related to foreign exchange at the border, facilitated cross-border shopping and price comparison (including for online purchases) and made them more transparent, which had the effect of stimulating competition and keeping prices low, for the benefit of 500 million EU citizens

Source: Author's assessment

III. Conclusion

The amplification of the EU's dysfunctionalities is due to the incomplete and unequal financial markets integration, amid institutional arrangements and flawed policies.

The conflicts between the fiscal and financial components of the European single market have slowly but sure fed the fragmentation of financial markets within the single market and the deepening of the vicious circle between banks and sovereign national authorities, thus preventing proper management of the causes of the crisis.

An important conclusion was that there are serious limits to the effects of the monetary policy conducted by the European Central Bank on the Eurozone economic path, and the most important one is that fiscal policy remained the responsibility of the Member States. Some states in the Union are using fiscal policy to speed up the process of economic convergence or simply to counter the effects of the European Monetary Policy.

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