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THE FUTURE OF MONETARY UNION IN THE EUROPEAN UNION

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Introduction

The European Union (EU) emerged with the Treaty of Paris (1952) and the Treaty of Rome (1957) for the re-strengthening of Europe following WWII. The union, which was initially established as an economic union, namely, EEC, has been developed, expanded, and deepened over time, and became political with the Maastricht Treaty in 1992. The Maastricht Treaty, signed in 1992, transferred the power to create money to the European Central Bank (ECB). Thus, as of 2002, Euro banknotes and coins were released into circulation and the Eurozone was established. A common currency in Europe has created the money that member countries cannot create themselves. The ECB ensured a very low inflation rate within the Eurozone by implementing a tight monetary policy since the date it was established. Despite the monetary union, the targeted political unity has not been achieved. The most important reason underlying this involves both the system and the structure of the monetary union. Because national autonomy exists and responsibility is assumed by political finance. Accordingly, the member countries borrow in a currency that they cannot create. On the one hand, the ECB has to purchase government bonds during the debt crisis. On the other hand, the ECB becomes more and more the "lender of last resort" in this regard. This role is not in compliance with its legal basis.

In the study; after concentrated on the establishment of the EU and the reasons for the lack of political integration within the monetary union, the ECB's decisions on preventing crises and responses to the question of whether More Europe is required are sought.

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1. The European Union (EU)

A) Establishment Of The EU

Following WWI and WWII, during which nearly 60 million people lost their lives, some European leaders and thinkers have concluded that the only way to maintain peace was the economical and political unification of countries. In this context, the European Coal and Steel Community (ECSC) was established in 1951 with 6 members comprising Belgium, Federal Germany, Luxembourg, France, Italy, and the Netherlands, and the European Economic Community (EEC) was established in 1957. The Community became the European Community (EC) in 1967, and eventually the European Union (EU) in 1992. The basic principles of the Union are expressed in Article 2 of the Treaty on the EU. According to this article, the Union is based on such merits as human dignity, freedom, democracy, equality, rule of law and respect for human rights, including the human rights belonging to minorities. Common to all EU member states, these merits consist of the principles of pluralism, indifference, tolerance, justice, solidarity, and equality between women and men. According to Article 3 of the Treaty, the aim of the EU is to maintain peace, to protect the merits of the Union, and to improve the welfare of their people. According to Article 6 of the Treaty, the members of the EU agree to protect the rights, freedoms, and principles stated in the 'Charter of Fundamental Rights of the EU' and to be a party to the 'Convention for the Protection of Human Rights and Fundamental Freedoms'. In terms of economy, the aim of the EU is to achieve balanced and sustainable development by ensuring the free movement of goods, services, capital, and workforce, and the freedom of capital to settle within the Union. The Union has ultimately achieved its goals. After the end of WWII, Europe witnessed the longest period of peace and stability in its history. For this achievement, the EU was awarded the Nobel Peace Prize in 2012. On the other hand, in 1957, only 12 of the 28 EU member states were governed by democracy. As of today, all 28 countries are being governed by democracy. In terms of freedoms, it is seen that the EU is one of the freest communities in the world according to Freedom House (2017). Europe is home to the world's largest single market and the second most utilized currency. It is also the world's largest trade power, and the provider of development and humanitarian aid (Karluk, 1996: 81).

While the 21st century, which witnessed two world wars, also hosted many international associations and formations, the EU draws attention as one of the

most important of these formations. European countries have removed not only physical borders but also the borders between their regulations and policies; a supranational formation has been created with international agreements and consensus on various issues. While the EU has brought many enlargements since its first phase so far, it has made it crucial for its members to fulfill standard practices in many domains. With the Maastricht Treaty established on the basis of the EU, the name of the EEC has been transformed into the EC, and 3 basic principles have been adopted that accelerate and strengthen socio-economic progress (Karluk, 1996: 82):

- A free-market economy based on the Competition Principle.
- Sound management of Public Finance.
- Substitution principle.

The common policies determined by the Treaty of Rome (1957) were altered with the treaty signed in Maastricht on February 7, 1992. The concept of the EU, the goals and policies pursued through the European Communities (ECSC, EEA, EC) and the goals and policies covered by the three new actions (Economic and Monetary Union, European Citizenship and Common Security and Foreign Policy) brought by the EU agreement that will be taken gradually are used as a whole (Borchard, 2000: 76).

The member countries, which are in full cooperation with the legal regulations and the implementation of these regulations, also existed in a monetary union with a common currency. Nevertheless, although the monetary policies are the same, the monetary union is far from working effectively, as the EU member countries implement different fiscal policies. Since the EU member countries, whose monetary policy decisions are made by the ECB, are free to implement their own fiscal policies, this situation has revealed policy disputes in extraordinary situations.

B) Monetary Union

The Maastricht Treaty signed in 1992 has transferred the power to create money to the ECB. In 1999, the Euro became the currency of the EU member states, and in 2002, Euro banknotes and coins were released into circulation. Thus, the Eurozone was established. It was believed that this step would lead Europe to political integration. In 1992, 62 professors issued a warning about the European

monetary union in the Frankfurter Allgemeine Zeitung: In the article, scientists underlined that the European monetary union could not be an optimal monetary zone (FAZ, June 11, 1992: 15).

According to Sievert, a common currency in Europe "reveals money that members cannot create themselves"(Sievert 1992: 19). The Maastricht and Lisbon Treaties give the ECB the task of maintaining price stability. Moreover, the bank is given a broad range of autonomy. The ECB is the world's most independent central bank in every formal aspect. It is modeled after the German central bank. National central banks are also linked to the ECB system. In this way, they came through national finance - labor market policy pressure. Conflicts of national interest that often occur in Europe in a way that would shake the price stabilization are wished to be settled among the member countries accordingly. Although Hayek (1977) wanted to create an anti-nationalization of money in other ways, this monetary union ultimately provides this anti-nationalization (Hayek, 1977: 65).

The Maastricht Treaty ultimately establishes an international monetary order that has not been known in Europe since the gold standard, which ensures the objectification of the money supply. The member countries would no longer use the devaluation instrument deliberately to remain competitive in the short-run. Devaluation only increases competitiveness in the short-term, because real-economic conditions that reduce competitiveness do not improve in this regard. What is at stake here is an erroneous wage-labor market policy, which increases the cost of wages above total economic productivity, affecting the competitiveness of companies. Devaluation partially compensates for this wage disadvantage, but usually leads to new wage increases with rising import prices and the inflationary pressure stemming from it. The devaluation - inflation - high wages spiral continues to warp accordingly. Especially southern European countries experience this eminently before entering the monetary union. In this context, it should not be possible to put pressure on the ECB in the European platform, neither at the level of finance nor labor market policy. Thus, the structural errors of the monetary union did not exist in national finance, labor market, and social policy autonomy, unlike some claimed. In fact, the decentralized responsibilities of national states over financial-economic policies are some of the founding features of the monetary union, which is, one of the pillars of the monetary union structure, which would of course have severe consequences.

The fathers of the monetary union also know that countries that are not used to stabilization policies would immediately wish to take advantage of low-interest rates and postpone the real-economic harmony, which is required to improve competitiveness in the medium-run. That is why benchmarks and political finance in the Maastricht Treaty introduced a stabilization and growth pact to correct faulty developments. Similar mechanisms are not found in other European treaties. Also, everyone knows that a stabilization culture would not be fostered within a few years. However, some progress was to be expected in terms of fiscal-political discipline. Whereas, first, Germany frustrates these hopes. The structural error of the monetary union appears in two points. First of all, the NO - BAIL-OUT (a state cannot be a guarantor for the other state) clause in the Maastricht and Lisbon treaties, is not plausible. As a result, the member states are not told anything, as one member has to consider having difficulty in repayments due to excessive indebtedness. A state-type bankruptcy scheme was not established. Secondly, the possibility of a deep financial and banking crisis was not taken into account much, which had shaken the world in the past few years. Besides, the interdependence among the debt policies of the member states along with banking and financial market regulations has not been examined. If there are some spillover effects in a country's non-payment situation and the banks in question are not equipped with sufficient equity capital, the non-guarantor clause loses its plausibility. Even a bankruptcy order established for states cannot enhance it (BMF Scientific Committee, 2010).

2. Solution Approaches For The European Monetary Union

A) The European Central Bank in Dilemma

The ECB has been implementing a tight monetary policy since its establishment, ensuring a very low inflation rate in the Eurozone. In cases where capital movements are free and capital controls are not applied, interest rates must be equalized in all Eurozone member countries. Indeed, the Greek interest rates are converging to the German interest rates due to the decline in inflation expectations in the Eurozone. However, economic units in Greece have been getting used to high-interest rates for a long time. While public sector expenditures mostly go to social programs, households turn to housing construction. This causes an increase in budget deficit/GDP and public debt/GDP ratios in Greece over the years. In order to ensure sustainability in current transactions, the country has to apply

a contractionary fiscal policy. Encountered the problem of sustainability in current transactions, Greece tries to increase public revenues while decreasing public expenditures. Of course, this causes a decrease in the GDP and an increase in the unemployment rate in Greece (Sievert, 1992: 13-24). Increasing tensions and discontent in Greece and other EU member countries in similar cases are beginning to manifest itself in the political arena. It is the US financial crisis of 2008 that exacerbates this trend and the Euro crisis that hit Europe a few years later. In both, the liberal system conceived by the elites has been collapsing in the presence of external shocks. The price for these failures is paid by ordinary workers, not elites. Political unity is essential for the Euro's success. German Prime Minister Helmut Kohl and French President François Mitterand, who created the monetary union, predicted that the monetary union would deepen the economic integration and that a political union in the EU would be constituted over time. However, such a union could not be established and it is not foreseen to be established in the near future. The EU can persist without the Euro, and it can be even more successful.

The basic order of the European monetary union is also under threat. If the ECB cannot create stable money, its future will be questioned. Plausibility and reputation are essential features for an independent central bank. Otherwise, it faces government pressure and has to support it with money-inflation policies. The current policy of the ECB resembles walking on a rope. On the one hand, it has to create liquidity in order to keep banks functional. It is currently the only institution in the EU that can prevent a new banking and financial crisis. However, on the one hand, the ECB's purchase of government bonds threatens its plausibility and independence. On the other hand, the ECB's liquidity provisions in 2011 and 2012 succeeded in maintaining the stability of the banking and financial system in Europe using monetary measures. Although banks have largely purchased government bonds with these coins and the bond between state and banks has narrowed further, this attitude is still better than purchasing government bonds on secondary markets. But ultimately, the ECB has to withdraw this excess liquidity from the market after overcoming the debt crisis. It is also highly doubtful that it will sterilize this liquidity at the right time and sufficiently. However, there seems to be no inflation threat in the European region at the moment. But, high liquidity and the insecure situation in the Eurozone would force the ECB to revert to a tight monetary policy. If the ECB crosses the boundary between monetary and financial policies again and again, then this situation is politically

thought-provoking. If the government purchases bonds, the bonds purchased from the secondary markets would greatly injure the ECB in accordance with Article 123 of the Maastricht and Lisbon Treaties. Whereas the ECB should have this power since this is part of its open market policy. Nevertheless, it is also problematic to purchase government bonds of the countries under excessive indebtedness to facilitate refinancing, because, in this regard, the fiscal policy limit is crossed.

The ECB would have made been a grave mistake by changing its task, rendering itself the "lender of last resort" of countries. Because in this way, it would have to purchase unlimited amounts of government bonds and could re-finance the EU member states. Accordingly, it would have remained on financial-political tasks that would have not been compatible with its independence. Moreover, the door to lenient monetary policy would have been opened. The European monetary union would have no longer been a stabilization union. This would have been a constitutional problem for Germany, on which on this basis Germany agreed to establish a European monetary union. Eventually, Germany would be seriously contemplating the exit from the monetary union.

But Germany's or any other country's exit from the monetary union could have disastrous consequences for the monetary union region as well as the German economy. In the crisis of 2012, capital owners not only withdrew their money from the heavily indebted southern countries but also in the entire monetary union because they feared the collapse of a currency unit.

Each break will raise these expectations and directly cause other capital flight. As a result, a spillover process develops and it directly fuels the fear of the system's collapse. Germany's exit from the union would cause exactly this shock. But this would have adverse impacts on the German economy. Until the new exchange rate between the Euro and the German mark (or other new currencies) was formed, mutual currency relations would have been partially suspended and various German companies could not have survived that process. Eventually, bankruptcies would have come and the GNP would have fallen. Also, the new DM would come under appreciation pressure and this would have constantly hindered German exports. So, this would have been too expensive for Germany as of today.

So far, only the ECB has been able to prevent the collapse of the monetary union by purchasing government bonds. In this context, perhaps by making a change in the establishment article, it could have paved the way for it to purchase unlimited

government bonds, which would also cause the financial markets to calm down. This function would have also been with his constant purchase of government bonds in the presence of a threat, in accordance with daily needs. The ECB would likely be responsible for the same number of government bonds at the end of such a process. However, this is not in compliance with the order policy in savings and essentially does not have a calming effect on the markets.

The ECB and German policy stand in front of such a dilemma. On the one hand, the ECB feels obliged to purchase government bonds during the debt crisis, because it wishes to prevent the collapse of the monetary union. In this case, Germany may turn a blind eye to a limited purchase, because the collapse of the Euro could cause serious economic damage in Germany. On the other hand, the ECB becomes more and more "lender of last resort" in this way, which is not in compliance with its legal basis. Due to such a dilemma, Germany should ultimately choose between two options.

B) "More Europe" as a Solution?

This dilemma does not disappear simply by calling for "More Europe". Moreover, the "More Europe" strategy is still open to interpretation and various solution strategies gathered under this heading are not realistic. At the same time, it is an unrealistic vision of trying to solve this problem of over-indebtedness with an institutionalized budget or political economy control. These suggestions include, for instance, the European economic government, the Greek savings commissioner, the European finance minister, or Brussels to be equipped with broad powers on the budget. After all, when Germany is asked to take responsibility, it is normal for such suggestions to come from the base. If the German federal government is to take responsibility, it wishes to have some guarantees in return. These suggestions are unrealistic because such rights can only be established within the hierarchical traditional governments of national states. However, Europe would never become a unitary state. As delicately put by Napoleon in this context: "Europe will or will not be federal" (Feld, 2003: 289-317). In the federal order, it is not possible to interfere with the budgets of member states. The American federal states, Canadian provinces, and Swiss cantons have extensive budgetary autonomy. They can borrow by the right bestowed to them, but they are fully responsible for these borrowings. There is no debt service obligation union. German states, on the other hand, are subject to a very limited

restriction and are in a debt service union at the federal level. Here, just like the USA, Switzerland, and Canada, the states have administrative autonomy (Feld and von Hagen 2007: 125-150).

Only Brazil makes an exception at this point. Brazil experienced a series of financial crises following the military dictatorship, and in the 80s and the 90s, this often resulted in the liberation of states on the federal level. Subsequently, the federal intervention has become an expectation in the states during this period. In the wake of a new financial crisis and the expected bankruptcy of some states, the federal government passed a Fiscal Responsibility Law, which imposed a tight expenditure and debt brake on both the federal government and the states. For the implementation of this, the federal administration was given the right to intervene in the state budgets. The law also has sanctions: personal mistakes in politics and economics can be punished by fines or imprisonment. Besides, a series of rules ranging from management transparency to personnel training is applied in Brazil. The financial responsibility law has become decisive for the stabilization of public finance. Even though the harsh sanctions of the law have not been used yet, these rights eventually brought about a transformation into the unitary state. The local controls of the German federal states have been shown as a model generally in the context of the right to intervene so far. Notwithstanding, there are some obligations in Switzerland and the USA. The federal-state can ultimately be disciplined by force in a probable situation. This legal right does not apply much since both states have ultimately gone through civil wars. Although the excessive indebtedness of the states in Germany is the subject of the federal parliament and boards, a legal sanction is also preferred as the last option here.

This brief description of law on budgetary intervention in federal states has shown us that the intervention of a higher state level must be assessed differently for sound budgetary policy formation. On the other hand, the EU is far from being a federal state, at this stage there is no disposition that only national budgets would be controlled more effectively. One of the main reasons why France and Germany did not want to accept in the 2003 pact is to ensure their budgetary autonomy. It does not seem possible for the EU's sovereign powers to accept effective usage rights. Beyond that, the integration of budget policies in Europe is NOT CONCERNING THE SOLUTION OF THE PROBLEM. There are two reasons for crises in the European Union: firstly, it is a system crisis and secondly, the structural problems of the member states underlie the crisis.

The cause of the system crisis lies in the structure of the European monetary union since there is national autonomy and the responsibility is assumed by the political finance. In this regard, member countries borrowed in a currency that they could not produce. The ECB is not subject to a liability law in this sense, so it cannot directly re-finance member countries. Besides, member countries should not mutually assist each other in accordance with the prohibition of mutual aid. After all, this indicates that if a country becomes over-indebted, it must go bankrupt. This bankruptcy risk emerged with the refinancing of Greece's "voluntary" debt burden. Due to the risk of bankruptcy, especially vulnerable investors sold off borrowed government bonds. This increased the cost of refinancing and raised concerns that these countries would not be able to recover with their own power. Since there is no common solution in the European region, the financiers who worry that the monetary union would collapse are moving away from the Euro (Feld, 2011: 31).

The government borrowing of Greece, Italy, Ireland, Portugal, and Spain is very high. Also, wage costs rise sharply. The factors that cause problems in these countries are not so important in this context. Italy and Greece have had high government debt for a long time, although Italy has had a primary surplus and private sector borrowing is low, but that does not change the situation. In Portugal, the growth of state and private borrowings is thought-provoking. Excessively high private borrowing in Ireland and Spain causes major problems. Labor costs are too high in all five countries. Regardless of the reasons for this difficult situation that countries have fallen into, there is no escape from the consolidation of public finance and the reforms in the labor and product markets. These countries have to make the necessary adjustments in the short- and medium-run. But even in this way, the systemic crisis may not be overcome, even if the problems were not systemic, the situation would not change even if the monetary union states were in great condition before the financial crisis. Because once a systemic crisis develops, then investors' trust usually comes back only over time. Even if states make reforms and necessary improvements, investors are not guaranteed to give them money at regular interest rates.

After all, the solution to the Euro crisis should be bilateral. It should lead member states to the consolidation of state finances and reforms in the business - product markets and include measures to overcome the systemic crisis. Consolidation and structural reforms can be made within national responsibility. Because

the necessary corrections require wide-ranging interventions in existing income and wealth relations, which can only be realized with national-state responsibility. If the ECB's prohibition on the purchase of government bonds was lifted, then government bonds can be purchased on a large scale. This would have ultimately meant 'More Europe' since government borrowing would have been included in the community through the ECB balance sheet.

The second option to overcome the systemic crisis may be Eurobonds. Nonetheless, the concept of Eurobond is not used clearly. At this point, it would be correct to define it with an exquisite definition. Eurobonds are essentially common European government bonds, for which the member states of the monetary union bear joint responsibility in this regard. Although each bond has a limited maturity and amount, the moment such an instrument reaches the EU platform, it becomes unlimited. In this way, government borrowing is constantly included in the community. If Eurobonds were now ready for use, which is difficult due to the legal framework, then it would have created a partially reliable investment tool into which investors could have deposited money. Furthermore, this would have been a clear confirmation of the persistence of the European monetary union.

Conclusion

The EU has appeared on the stage of history since the era when its foundations were laid, and been one of the most important actors of both politics and economy for many years. Nevertheless, similar to the fact that different inhabitants of a house live in constant conflict, it was not easy, as predicted, for countries with different cultures and features to live under the same roof. In the monetary union, a group of countries has determined a common currency unit, abandoning their existing national currencies. The monetary union must have an institution with the authority to set interest rates, make decisions on money emission, and manage the common exchange rate. In the monetary union, there should be no significant differences among the policies implemented by the national banking regulatory and supervisory authorities of the member countries. In case of a financial crisis in the monetary union, the central bank of the union should assume the task of being the lender of last resort from which financial institutions may borrow. In the monetary union, it should be clearly known how the central bank will allocate the financial burden that would arise in crisis situations among the member countries due to its duty of the lender of last resort. Today, the point

is that the member countries, trying to blend the same monetary policy with different fiscal policies, have made huge discrepancies between the economic indicators in one corner and the indicators in the other corner. Such discrepancies are not likely to diminish at all. The structural problem of the Eurozone that underlies the crisis is the paradox of "economic integration/political fragmentation". Despite the economic integration, the incomplete political integration constitutes the structural basis of various problems the EU encounters as of today. Nonetheless, the hope that the EU member states will find a way out without leaving the monetary union is still alive. Thus, it is necessary to return to the basic principles of the Maastricht Treaty and support the existing monetary regulations with a bankruptcy rule for states and rules for the banking union. In this context, the ECB should not be held accountable for greater monetary value stabilization.

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