

Chapter 10

An Investigation of the Maastricht Fiscal Criteria and the European Union's Harmonization

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ABSTRACT

The Maastricht Treaty brought many innovations in the process of harmonization of the EU. This treaty, which was realized in 1993, aims to harmonize the economic, financial, legal, and political aspects of the EU members. Two basic financial criteria were identified in the financial stability and harmonization process. The first is the ratio of member countries' budget deficits to GDP. The second is the ratio of the member country's public debt to the GDP. In this chapter, it will be revealed how EU member countries are adapting to financial criteria. For this purpose, reports and statistics published by international organizations such as OECD and EU will be examined. It will be seen in many of the EU member countries can not adapt to these criteria. Especially after the 2008 Global Financial Crisis, there were difficulties in adapting to these criteria. The EU Council put into effect several legal regulations in the harmonization process. Although many legal sanctions were put into effect for this purpose, success in complying with the financial criteria were not achieved.

INTRODUCTION

The Maastricht Treaty was signed in 1991 and entered into force in 1993. It is an important milestone in the process of creating a stable and stronger EU. With the Maastricht Treaty, basically two criteria have been asserted. The first criteria of these is to assure the fiscal discipline, the second one is to assure the monetary discipline. Both criteria are aimed at achieving stable growth and strengthening the economies of the member countries. Occasionally, control mechanism becomes a part of putting both these criteria into effect, in fact; sanctions can be imposed to the concerned countries.

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Stability and Growth Pact (SGP) entered into force in 1997 in order to ensure the implementation of these criteria, which was established by the Maastricht Treaty, in a more powerful and decisive manner. The accordance of the concerned country is observed, the report is prepared, the recommendations are presented and the measures to be taken are set forth with Stability and Growth Pact.

When considered the accordance of EU member countries with the criteria that is stated by the Maastricht Treaty, it is seen that the criteria for monetary discipline has achieved a certain success. However, when considered the ratio of budget deficit and general administrative debt to GDP (in other words, in view of compliance with the criteria for achieving fiscal discipline), it seems difficult to say that it provides the same success.

In Turkey, a situation arises in contrast to EU countries. Turkey's budget deficit and the ratio of general administrative debt to GDP seem better than the EU countries. However, the inflation rate of Turkey, it is seem to be well above the EU average in terms of long-term government bond interest rate and the exchange rate. This situation is reached the result that Turkey should take certain measures for the future in terms of financial and economic stability. Otherwise, it will be left alone with bigger economic problems.

AN OUTLINE OF THE EUROPEAN UNION AND THE TREATY OF MAASTRICHT

The origin of EU is based on European Coal and Steel Community (ECSC) that is founded on Paris Agreement in 1951. The destructive effects of wars that happened between Germany and France for years and the issue of coal and steel between these countries are influential on the origins of idea of union (Falay, 2007, pp.223). Six member- community that had Belgium, Federal Republic of Germany, Luxemburg, France, Italy and Holland was constituted European Economic Community (EEC) and European Atomic Energy Community (EURATOM) established by the Treaty of Rome in 1951 (EU Ministry, 2018).

The ECSC, EEC and EURATOM, which had previously organized and operated in separate communities, were named as the European Community (EC) with two treaties signed in 1957 and 1965 as a result of the idea of merger or fusion. In 1973, England, Denmark and Ireland; in 1981, Greece; in 1986, Spain and Portuguese; in 1995, Sweden, Finland and Austria have joined the community and the number of the members has reached 15. After the collapse of the Eastern Bloc and the Soviet Regime, ten countries were included in the community in 2004, following the transition of the Eastern European countries to the market economy (Hungary, Czech Republic, Poland, Estonia, Latvia, Lithuania, Slovenia, Slovakia, Malta, South Cyprus), (European Union, 2018).

After the Treaty of Rome that established the EU, the Treaty of Maastricht which included the most comprehensive amendment was signed on 9th-10th December, 1991 and came into force on 1st November, 1993. This treaty, which holds the qualification that is a kind of EU Constitution and establishes the European Union which is called current name, has many provisions ranging from financial-economic and monetary union, EU citizenship, foreign policy, justice mechanism and common security (Bilici, 2012, pp. 40-43).

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