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THE GLOBAL ECONOMIC CRISIS AND
THE FUTURE OF EUROPEAN INTEGRATION

THE CRITERIA OF EUROPEAN UNION ECONOMIC POLICY IN THE MIRROR OF THE REAL GOAL OF EACH ECONOMY

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Abstract: *The main objective of the research is to investigate the development of economic policy coordination in the European Union (EU) and to reveal the Bulgaria's experience in implementing the financial stability policy. The results of the implementation of the Maastricht criteria for the past 10 years are presented. It is argued that the fiscal policy of a country is a means to achieve the goal in the economy, but not the final goal of the economy.*

Keywords*: European Union, Maastricht criteria, Economic coordination, Coordination, Financial stability.*

1. Introduction

The development in the processes of coordination in the EU started in the 70s of XX century. Until that moment, the process of European integration was focused on building a common European market and ensuring the free movement of goods, services, people and capital, and the conduct a common policy in the field of agriculture and competition.

As a result of the realization of the European Economic Community (EEC) and the establishment of a common European market, it could be noticed development of the national economies of the Member States and the social relations in these countries. These facts explain the increased complexity that the management of the national economies has been facing. To deal with the increased complexity the heads of the European countries were trying to improve the coordination among the different economies, which should lead to ensuring the necessary prerequisites and conditions for the effective development of the economic systems and the improvement of the socio-economic status of the citizens of those countries.

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2. The Werner Plan

Recognizing the need for greater coordination of the economic processes in the EEC led to holding a summit in The Hague in December 1969, on which should be discussed the future of the Community.

The heads of the Community focused on the fact that "entry upon the final stage of the Common Market not only means confirming the irreversible nature of the work accomplished by the Communities, but also means paving the way for a united Europe capable of assuming its responsibilities in the world of tomorrow and of making a contribution commensurate with its traditions and its mission" (Final communiqué of the conference of heads of state or government on 1 and 2 December 1969 at the Hague). They reaffirm their commitment to the political union and stressed their readiness for the implementation of future accelerated progress needed for strengthening and development of the Community.

The EEC leaders united around a program for completion, deepening and enlargement of the Union. Under the term "completion" the leaders of the member states understood finding an agreement that will provide the Community with its own resources. Moreover, completion included also the introduction of direct elections for the European Parliament and the expansion of its power through the implementation of a budgetary procedure. It has been envisaged that the budget shall be funded, as it was to that moment, from the direct contributions of the member states. In addition to this source, the Community would be also able to generate its own revenues, which include taxation of imports of agricultural and other products, and a small share of national income from the value added tax.

The deepening involved the development of the goal for the establishment of a common market by implementation a wide range of Community policies. Apart from the common agricultural policy, the EEC leaders appealed for the establishment of a common policy in the field of foreign policy, regional development and fisheries. The participants in the summit agreed on the development a plan for the establishment of economic and monetary union (EMU).

Based on the decisions taken at the summit in The Hague, and on the basis of the mandate given by the Council of Ministers, a group of experts led by Pierre Werner (Prime Minister and Minister of Finances of Luxembourg), was tasked to develop a plan for the establishment of economic and monetary union. Using as a basis a number of proposals from both the Commission and the member states, Werner, along with the group of experts, presented at 8 October 1970 the final version of the Report to the Council and the Commission on the realization by stages of economic and monetary union In the Community - also known as the Werner Plan.

Of the all proposals for “deepening” made at The Hague summit, the goal of establishing EMU by 1980 was by far the most ambitious. The EMU would change the face of the EEC dramatically, as it would transfer to the supranational level the control and implementation of a core instrument of state power (Dinan, Desmond 2006, 181). The Werner plan also presented the individual policies to be implemented by the Community in the following areas: budget policy, fiscal policy, financial markets policy, national monetary and credit policy, foreign monetary policy, etc. For increasing the coordination

and harmonization among the separate member states in those areas were given the necessary measures to be taken. It was also envisaged the development of guidelines and programs to achieve the necessary coordination.

Several years after the adoption of the Werner Plan it became clear that it could not be implemented. According to many researchers, there were two main reasons for the failure of the Werner Plan. The first is associated with the collapse of the Bretton Woods system. In 1971, the U.S. dollar was used as the basis (so-called "snake in the tunnel") for the fluctuations of the European countries currencies. The collapse of the system, along with the infusion of additional dollars into the U.S. economy due to the high deficit also leads to an increase in inflation in the European economies. The other main reason for the failure of the Werner Plan is associated with raging oil crisis and the sharp increase in the fuel prices in Europe in 1973.

As a result of the occurring events at the end of 1973, the Community renounced the further implementation of the plan and some countries took their own national measures to deal with the economic crisis.

3. Establishment of the Economic and Monetary Union

The idea for the establishment of the EMU has been strongly resumed in the late 80s of the XX century and it was officially announced at the summit in Hanover on 27 and 28 June 1988. The managing member states decided to "examine at the European Council meeting in Madrid in June 1989 the means of achieving this Union. To that end they decided to entrust to a Committee the task of studying and proposing concrete stages leading towards this Union" (Presidency Conclusions, Hannover European Council, 27 and 28 June 1988). The task to chair that committee was given to Jacques Delors – the President of the European Commission.

On 17 April 1989, at the meeting of the European Council in Madrid, Jacques Delors presented a Report on economic and monetary union in the European Community. The report displayed three main stages for the realization of the EMU. For each stage there were outlined specific steps that need to be accomplished to achieve the final goal. The steps themselves were divided into two main groups - steps in the economic area and the steps in the currency area.

Based on the Delors plan, the EEC heads decided to proceed to the first stage for the establishment of the EMU in July 1990, and the Strasbourg European Council convened an international conference to adopt the amendments in the Treaty required for the implementation of the EMU second and third stage.

The adoption of the Maastricht Treaty turned to be a necessary condition for the start of the second stage of the EMU establishment. It was signed on 07.02.1992, and entered into force on 01.11.1993. It introduced a number of amendments to the constituent treaties, where the most important were related to the formation of the European Union (EU) and the adoption of steps for the realization of EMU. The treaty set criteria for convergence that the member states should fulfill in order to introduce the common currency. They are:

- A maximum 3 per cent budget deficit (of gross domestic product (GDP));
- A maximum 60 per cent government debt (of GDP);
- Inflation no higher than 1.5 per cent above the average inflation of the three best-performing countries;
- Long-term interest rates no more than 2 per cent above the three best performing countries;
- Two years of membership in the EMS without devaluing.

The convergence criteria were an indicator of stability and sustainability of public finances of the member states. It is believed that countries meeting those criteria are fully prepared for the introduction of the common currency.

With the adoption of the Maastricht Treaty and the completion of the common market, the EU passed to the second stage of the implementation of the EMU. It started on 01.01.1994 and continued until the introduction of the common currency in 1999. Within the second stage, the European Monetary Institute (EMI) in Frankfurt was established in 1994. As a predecessor of the European Central Bank (ECB), EMI has tasked to coordinate the monetary policy of the central banks of the member states. To promote the coordination of the policies in the EU, the European Council in Amsterdam in 1997, created the Stability and Growth Pact, which aimed to provide the necessary fiscal stability within the EMU.

The third stage started on 01.01.1999 with the launch of Euro and the ECB took the responsibility for the monetary policy in the eurozone. The original eurozone included 11 countries: Austria, Belgium, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Finland and France. On 01.01.2002 entered into circulation euro notes and coins.

The establishment of the eurozone and the introduction of Euro have been defined as a natural step towards further development of the common market. The advantages of the introduction of the single currency can be divided as follows:

- Low levels of inflation. Within the euro zone was formed environment characterized by stability of price levels. As a result, the inflation rate has been maintained stable and on low levels. Even in times of global financial crisis, the eurozone inflation remained relatively low. For the period 2001-2011, only in 2008 it passed the 3% barrier and reached 3.3%.
- Increased price transparency. The movement of people within the eurozone improved as a result of the fact that payments were made in the same currency. The price transparency was at the service of consumers who could easily compare the prices of goods in different countries and to buy from the cheapest suppliers. This in turn increased the competition in the eurozone and encouraged the companies to produce in the most efficient way.
- Elimination of the transaction costs. Within the eurozone were cut the costs arising from: the purchase and sale of foreign currencies in international markets; cross-border payments in foreign currencies, for which higher charges were paid, holding multiple currency accounts that complicate the management of cash flows.
- Absence of fluctuations in exchange rates. With the introduction of the single currency were removed the risks associated with fluctuations in currency exchange rates. Those risks were prohibitive to free trade and competition between the companies in different countries.

The biggest disadvantage of the eurozone was considered to be the loss of political control over the monetary policy of the separate countries. That made it impossible to carry out specific economic and financial policy that could help a country to overcome the difficulties occurred. The monetary policy in the eurozone was controlled by the ECB and referred to all member countries in the zone.

4. The Stability and Growth Pact

The Stability and Growth Pact (SGP) was adopted in 1997 and aimed to maintain stable public finances and avoid excessive budget deficits in accordance with the Maastricht Treaty. According to the Pact, the member states had to develop annual stability programs, which must specify measures to safeguard the country's fiscal stability in the medium term. The countries not participating in the EMU were required to work out convergence program to create the necessary basis for the sustainability of public finances which was conducive to price stability, strong sustainable growth and employment creation.

The stability program could be based on the most likely scenario or on the more conservative one. It was envisaged the developed macroeconomic and budgetary forecasts to be compared with the most recent estimates of the Commission. In the case of serious deviation found between the chosen scenario and the Commission's forecast, it is necessary to present arguments by the member country concerned.

The control on the observance with the commitments made in both types of programs has been entrusted to the European Commission and the European Council. It is conducted by giving early warnings to prevent excessive deficit and issuing recommendations to member states. In the case of default of the recommendations issued, the possibility of imposing sanctions is provisioned on the eurozone countries.

One of the main weaknesses of the Pact is related with the procedure for imposing sanctions on the countries which do not fulfill its requirements. In order to reach the realization of such procedure are needed two steps. First, the Commission, as the institution initiating proceedings, had to get the backing from Commissioners before any procedural steps could be taken. Thus, there was always a risk that the Commission would seek to water down proceedings against countries. Second, a qualified majority was then required in the ECOFIN Council in order to approve further procedural steps. Countries that "sinned" retained the right to vote and needed only a few additional countries – prospective sinners among them – to block such steps (Schuknecht, Ludger 2011, 9). In this way the decisions for imposing sanctions on one country could be stopped on political base without giving a meaning to the economic essence of the processes.

5. Results of the Implementation of the Financial Stability Policy in the EU

The data analysis for the development of the EU proved that at present the Stability and Growth Pact was still not conducive to the extent necessary for the economic growth and financial stability. One of the criteria laid down in the Maastricht Treaty, is related to the ratio of gross government debt to the GDP produced. It is required that this ratio may not be greater than 60%. For the period from 1999 to 2012, only in 2007 the value of this

indicator for the EU was below 60%. Due to the ongoing crisis, the values of the ratio increased significantly in 2009 by reaching 74.6%, in 2010 - 80%, in 2011 - 82.5% and in 2012 - 85.3%. For the period 2010 - 2012, only 13 out of all 27 member states were below the 60% barrier. The data for the eurozone countries are still more negative. For the same period, 17 countries have adopted the single currency and only 5 of them meet the requirements of the critical rate indicator: Estonia, Luxembourg, Slovakia, Slovenia and Finland.

Another criterion of the Maastricht Treaty is related to the budget deficit / surplus of the countries expressed as a percentage of the GDP. The requirements for the value of this ratio are to be higher than -3%. Here again, as with the previous indicator, we can observe unsatisfactory results for the period 2009 - 2012. In 2009, the values of the indicator for the EU amounted to -6.9%, in 2010 -6.5%, in 2011 -4.4% and in 2012 - 4.0%. In 2012, only 11 EU countries meet the 3% required rate for budget deficit. At the same time, only 6 out of 17 countries that adopted the euro met this requirement in 2012. Those were Germany, Estonia, Luxembourg, Finland, Austria and Italy.

The third criterion for financial stability is related to the inflation rate. For the period 2001 - 2007 the rate of inflation for the EU both in general and for the eurozone was relatively stable and ranged between 2.0% and 2.3%. Due to the ongoing global financial crisis, it could be also seen abrupt changes in the inflation rate in the EU and the eurozone. For the period 2008-2012, there was noticed both increase in inflation and periods of its decline. In 2012 the inflation rate in the EU reached 2.6% and in the eurozone 2.5%. In 2012, the countries with the lowest inflation rate were Sweden 0.9%, followed by Greece and 1% and Ireland 1.9%. For the same year, the countries with the highest level of inflation were Hungary 5.7%, Estonia 4.2%, Slovakia and Poland with 3.7%.

The fourth criterion laid down in the Maastricht Treaty, is related to the long-term interest rate levels. For the period 2001-2012, periods of reduction in this indicator alternated with periods of growth. In 2012, the countries with the lowest value of long-term interest rate levels were Denmark - 1.40%, followed by Germany - 1,50%, Sweden - 1.59% and the United Kingdom - 1.74%. With the highest value of the indicator were Greece - 22.50%, Portugal - 10.55%, Hungary - 7.89% and Cyprus - 7%.

From the data analyzed can be concluded that the Stability and Growth Pact did not appear a sufficient tool for maintaining stable public finances and avoiding excessive budget deficits in accordance with the Maastricht Treaty. That fact confirmed the conclusion that even the instruments for the implementation of a certain economic policy were important, the most important remained the philosophy within which those instruments were used.

The strengths of the tools for increasing the coordination and ensuring financial stability could be achieved only if there is an agreement between the separate countries in terms of common objectives and in the presence of national will in each country to achieve the targets set. This requires understanding of the systemic nature of the processes in the Union. When the separate countries do not accept the systematic nature of the processes and occurrences in the Union and when they are acting solely in the name of their own national interest, the results from the implemented tools would not be at the required level.

6. Bulgaria's Experience in Implementing the Financial Stability Policy

After overcoming the effects of the hyperinflation in the late 90s of the XX century and the introduction of the currency board, the governments in Bulgaria maintained conservative fiscal policy. This conclusion is supported by the Eurostat data for the fulfillment of the Maastricht criteria by the country.

Table 1. EU convergence criteria

geo\time	2005	2006	2007	2008	2009	2010	2011	2012
General government gross debt - % of GDP								
EU (27 countries)	62,8	61,6	59,0	62,3	74,6	80,0	82,5	85,3
Euro area (17 countries)	70,3	68,6	66,4	70,2	80,0	85,4	87,3	90,6
Euro area (16 countries)	70,3	68,7	66,5	70,3	80,1	85,5	87,4	90,8
Bulgaria	27,5	21,6	17,2	13,7	14,6	16,2	16,3	18,5
General government deficit and surplus - % of GDP								
EU (27 countries)	-2,5	-1,5	-0,9	-2,4	-6,9	-6,5	-4,4	-4,0
Euro area (17 countries)	-2,5	-1,3	-0,7	-2,1	-6,4	-6,2	-4,2	-3,7
Euro area (16 countries)	-2,5	-1,4	-0,7	-2,1	-6,4	-6,2	-4,2	-3,7
Bulgaria	1,0	1,9	1,2	1,7	-4,3	-3,1	-2,0	-0,8
HICP inflation rate - annual average rate of change (%)								
EU (changing composition)	2,2	2,2	2,3	3,7	1,0	2,1	3,1	2,6
Euro area (changing composition)	2,2	2,2	2,1	3,3	0,3	1,6	2,7	2,5
Euro area (17 countries)	2,2	2,2	2,1	3,3	0,3	1,6	2,7	2,5
Bulgaria	6,0	7,4	7,6	12,0	2,5	3,0	3,4	2,4
Long-term interest rates								
EU (27 countries)	3,70	4,03	4,56	4,54	4,13	3,82	4,31	3,74
Euro area (changing composition)	3,42	3,84	4,32	4,31	3,82	3,61	4,41	4,01
Bulgaria	3,87	4,18	4,54	5,38	7,22	6,01	5,36	4,50

Source: Eurostat

For the period 2001-2012, only in 2009 and 2010 the country did not met the requirement for a maximum of 3% budget deficit. In 2009 the deficit amounted to 4.3% and in 2010 - 3.1%. These were the years in which most strongly was felt the impact of the global financial crisis on the Bulgarian economy. After 2010, the budget deficit of the country tended to decrease and in 2011 it reached 2%, and in 2012 it dropped to 0.8%. In 2012, only Germany, Estonia and Sweden have lower level of budget deficit.

Regarding the second criterion (ratio debt towards GDP) there were also reported favorable values. For each year of the period 2002-2012, Bulgaria fulfilled the requirement that its external debt should not exceed 60% of the GDP. Within this period, two trends can be observed. For the period 2002-2008, the respective ratio tended to steadily decrease. For

the period 2009-2012, it could be noticed exactly the opposite trend - the debt of the country increased as a percentage of the GDP. For 2009, the ratio was 14.6%, in 2010 - 16,2%, in 2011 - 16.3% and in 2012 it reached 18.5%. Despite the reported adverse trend observed in the recent years, in 2012, only one country reported more favorable value of that ratio - Estonia - 10.1%.

When studying the inflation rate in the period 2001-2012, we can also identify two sub-periods. Between 2001 and 2008, a trend could be observed of steady increase in the inflation rates and from 7.4% in 2001 they reached 12% in 2008. The period between 2009 and 2012 can be characterized by significantly lower inflation rates in the country - between 2.4% and 3.4%. The positive trend in decrease of the inflation was confirmed by the fact that for the period 2001-2012, only in 2012, the inflation in Bulgaria (2.4%) was lower than that for the EU as a whole 2.6 %. In 2012, only six countries have more favorable level of that indicator - Sweden, Greece, Ireland, Germany, France and Latvia.

Similar conclusions can be also drawn when studying the long-term interest rates levels. For the period 2003-2009, an increase could be observed in that indicator, and in 2009 it amounted to 7.22%. Over the next three years, a gradual reduction of its levels could be seen and in 2010 the long-term interest rates amounted to 6.01%, in 2011 5.36%, and in 2012 it dropped to 4.50%.

The data examined clearly confirm the findings for the conduct of strict fiscal policy in the country in the recent years. Moreover, in 2011 and 2012, Bulgaria was able to cover all four researched Maastricht criteria.

The desire to maintain strict financial discipline in the country was also reflected in the legal framework of the country. On 15.02.2013 it was promulgated Public Finance Act. It is envisaged that the Act shall come into force on 01.01.2014. There are parameters of the fiscal policy of the country concerning the observance of financial discipline such as:

- The deficit of State Government sector on an annual basis, calculated based on the methodology of the European System of National and Regional Accounts of the Community should not exceed 3 percent of the gross domestic product. - Article 25 (2);
- The annual expenditure growth should not exceed the reference growth of the potential gross domestic product. - Article 26 (1);
- The annual budget deficit under the consolidated fiscal program, calculated on a cash basis, should not exceed 2 percent of the gross domestic product;
- The maximum amount of expenditure under the consolidated fiscal program should not exceed 40 percent of the gross domestic product - Article 28;
- The nominal amount of consolidated debt of the state government sector at the end of each year should not exceed 60 percent of the gross domestic product. - Article 29 (1).

Despite the financial stability measures taken, Bulgaria is still described as the poorest member country of the EU. With regard to the indicator GDP per capita, Bulgaria shortens the distance to the average European level. According to Eurostat data for the period 2001-2012, with each passing year there is an improvement, but still the distance from the average European level is huge. In 2012, in terms of this indicator the country takes the last place in the EU with only 47% of the average level for the EU.

The conclusions of the poor social and economic condition of the country were confirmed by the unemployment data in the country. For the period 2000-2008 there was a

process of reduction of that indicator. In 2000, the indicator was 16.4% and in 2008 it decreased to 5.6%. Due to the ongoing financial crisis and despite the measures applied for financial stability, the level of unemployment in the country has gradually increased during the period 2009-2012. In 2012, the unemployment rate in the country has already reached 12.3%.

The main conclusion of the fiscal policy maintained in Bulgaria over the past few years is that there is a misconception of the relationship goals-means for achieving the goals. Some of the economists believe that by exercising control within set limits on a certain range of economic indicators (interest rate, budget deficit, external debt, inflation, etc.) shall be solved the complex problems of the systems and societies. The economic reality, however, gives more examples that the automatic adherence of the macroeconomic indicators to certain standards does not lead to solving the problems of the people and states. The economic indicators, the policies (including the fiscal policy), which are maintained by separate countries are not the final goal of the economy, but a means of achieving economic prosperity.

In his blog in The New York Times, Paul Krugman, the Nobel-prize winning economist, agrees with the thesis, that countries pursuing austerity have by and large seen their debt positions worsen. He labels the blind adherence to austerity policy a "Rehn of Terror" - on the name of Olli Rehn, the European commissioner for economic and monetary affairs who supports strict budgetary targets (Krugman, Paul 2013).

The ultimate goal of the economy should be freeing people from the material needs and the concerns related thereto (Erhard, Ludwig 1993, 200). Professor Michael Porter pointed out that the primary economic goal of the government is to create a high and rising standard of living for its citizens (Porter, Michael 1990, 18). For both authors the ultimate goal of the economy is related to human development and providing it with constantly rising standard of living.

7. Conclusion

Due to the ongoing global financial crisis, the EU launched a policy of implementing a strict fiscal policy in line with the requirements of Maastricht criteria and the Stability and Growth Pact. At present, there are still a number of countries, including member countries of the eurozone that failed to deal with the high budget deficits and the relatively high share of their debt.

Bulgaria also took a policy of maintaining a strict fiscal policy in the recent years. At present, the macroeconomic indicators of the country comply with the requirements of Maastricht criteria. This fact contrasts sharply with the still low socio-economic development of the country. The main conclusion from the reforms in Bulgaria is that the fiscal policy of a country is a means to achieve the goal in the economy, but not the final goal of the economy.

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KRITERIJUMI EKONOMSKE POLITIKE EVROPSKE UNIJE U SVETLU REALNIH CILJEVA SVAKE PRIVREDE

Rezime: *Osnovni cilj istraživanje je da ispita razvoj koorinacije ekonomske politike u EU i da prikaže bugarsko iskustvou primeni politike finansijske stabilizacije. Prezentovani su rezultati primene kriterijuma iz Mastrihta za poslednjih 10 godina. Tvrdi se da je fiskalna politika zemlje sredstvo da se postighe cilj u privredi, ali ne i krajnji cilj privrede.*

Ključne reči*: Evropska unija, Mastrihtski kriterijum, ekonomska koordinacija, koordinacija, finansijska stabilnost..*