CONNECTIONS BETWEEN MONETARY POLICIES AND GLOBALIZATION

PhD Professor Alexandru Olteanu
PhD Madalina Antoaneta Radoi (Olteanu)
Nicolae Titulescu University

Abstract
The last decades have been marked by an acceleration of historical and political processes, which brought essential changes in the sphere of geopolitics with ongoing consequences on economics, financial markets and international relationships, and effects on the arising of new worldwide power balance.
The economic relationships were set before the foundation of the first states. Commercial relationships have had a long history and at the beginning were independent of the social and state organizations existing at the time. That is why bilateralism – as applied with reference to the relationship between two economic agents - is the oldest notion since life necessities have always implied the exchange of products.
Despite these tendencies autarchy dominated economic life ever since this came into being until the great geographic discoveries and industrial revolution.
Economic "coagulations" have continued in the course of time and become more prominent reaching unimaginably impenetrable levels recently, thus constituting a balance factor at regional and international level. Present evolutions confirm the old provisions concerning the indissoluble relationship between the economic and the financial monetary factor and international stability.

Key words: *market integration; integration by investments and institutions; competitive policy; cooperation policy.*

Introduction

One of the most approached problems of the last decades has been the one of economic and financial monetary integration, implying the interests of states, classes and nations.

Etymologically the term *to integrate* means *to include* or *to comprise in a whole*.

The French economist Jean Weiller tries to enlarge the meaning of the definitions given to the concept of integration. For him "integration is not a simple act of adding, but, in a given space, it means increasing the possibilities of decision plan centre coordination, with a view to create a single economic system. The study of integration means rising above the level of the market and focusing on decision, anticipation and intentions." This definition refers to western European integration and the "decision centres" are the authorities and the bodies of the different national states involved.

For economists like Viner, Seitovschi, Haberler integration simply means putting into contact the existing economies by eliminating all barriers that oppose change. This integration would be nothing else than the creation of a vast free market, formed by uniting two or more economies. In this case, according to André Marshall, one cannot speak about integration but about a juxtaposition of economies that each preserve their own characteristics and that become more or less independent of each other, each of them being affected by the consequences deriving from their neighbour influence. The true integration according to André Marshall is the one conceived in the structural and voluntary meaning of the word: "It manages to combine the different elements that make up an economic system in such a way that it represents a solidarity space."

François Perroux defines the concept of integration by means of Western European integration. "The act of integration unifies the elements in order to create a whole or it increases cohesion of an already existing whole. To integrate Europe will be, supposing that the elements of Europe are its nations, to join all these nations into a whole that deserves – thanks to its cohesion – to be called European or to increase the level of cohesion characterizing a whole that will naturally deserve to be called Europe."

Integration tries, according to Perroux, to replace national balances created within every European nation, between every European nation and the other European nations and the ones exterior to it, thus creating a more favourable and profitably stable system.

Taking the definition given to Western European integration as a starting point André Marshall considers that this integration is of four types:

1) **Economic** – which can result from the multiple and complex economic connections existing between the producers of the member nations: industrial entrepreneurs, bankers, traders, by excluding the national policies coordination or the application of a common policy.
2) **Social** – this means that one can accomplish what Myrdal has called "the equality of chances" which implies, contrary to economic integration, the intervene of national and European public powers. If economic integration can be of a private nature, then social integration cannot be conceived otherwise than institutional.
3) **Political** – this is accomplished when within Western Europe the unity of leading is reached and the conditions for the creation and functioning of a super-national authority are reunited, thus the wholly integrated system being structured as each nation is.
4) **Territorial** - this is the real integration since it is at the same time economic, social and political.

We regret to mention that André Marshall, as well as other economists, omits one of the fundamental integrations that conditions the other four mentioned above – the financial monetary one.

Thus, we appreciate that Perroux's theory according to which there are three forms of integration is a much more complex one. Perroux mentions the following forms of integration:

a) market integration
b) integration by investments
c) integration by institutions

These forms are actually different stages of the integration process.

Market integration is the simplest form of integration, its aim being to create a common economic and monetary-financial market by eliminating the customs barriers and ensuring the free movement of the goods and the money within the given area. A decisive role in the formation of the common market is played by monetary-financial integration whose most important element is represented by the free convertibility and flow of the currencies.

Economically the unification of Western Europe has meant the creation of an enlarged market which allows economy to function on a superior level, as the American and Asian ones function.

However, expansionist policy characteristic of the big capitalist countries and imperial monopolies hide themselves behind phrases like "the great inter-territorial unity", "optimal dimension", and this happens to the disadvantage of the small states whose natural wealth, economic and political life are threatened.

Another argument that is frequently referred to by economists to justify Western European integration is the development of the production forces and the fast contemporary technical progress.

André Marshall considers that integration is unconceivable in its structural sense unless we take into consideration the following conditions:

1. Geographical closeness – statistics point out that neighbouring countries practice a more intense commercial exchange and that distance still represents an obstacle in encouraging economic exchange despite of the progress made as far as transport means are concerned. He stated that: "one can find here one superior characteristic of UEM over the free exchange including: Austria, Denmark, Norway, Portugal, Great Britain, Sweden and Switzerland."
2. Comparable development levels and homogeneity of structures. "This means, according to André Marshall, that territorial integrity must unify not complementary economies but similar economies with a view to restructure them in a wider frame; this undoubtedly creates multiple problems and encounters many obstacles but it advantageous. On the contrary, the union of complementary elements which does not generate any problem is useless since all it does if to confirm status-quo."
3. Psychological conditions: the will to unify and to create a balanced economic complex.

By enumerating these conditions that would make economic integration healthy and politically acceptable André Marshall shows that the integration process cannot be enlarged to include too many countries. That is why one cannot speak of a worldwide integration but only of a regional one.

Myrdal makes an extremely important and correct observation as to the aggravation represented by the regional inequalities in the context of the integration because of the "circular and cumulative causality" mechanism that this implies. The complete liberalization of the exchanges as a consequence of accomplishing the unification of customs, labour force and capital generates a double cumulative process which makes rich regions get richer and the poor ones get poorer.

One has to understand that European integration does not take place in an international "vacuum". The countries in the European Union are open economies having strong links with the rest of the world. That is why the developments accomplished by the European Union will be seriously affected by the economic and political events outside the European Community.

On the other hand, the EU is an important actor on the world stage, an actor whose actions have a significant impact on the world economic system. All these challenges, evolutions represent the key to progress and the going on competition.

UEM Impact over Capital Market Globalization

The capital liberalization directive adopted in June 1988 regulates the complete liberalization of capital flow in the European Economic Community.

The European Union Treaty adopted by the member states interdicts any restriction imposed to capital flow and payments made between member states and it ensures the endurance of the European integration.

The complete harmonization of the capital market is also hindered by the national characteristics of the monetary markets which are, basically, influenced by the inflation level.

The worldwide trade expansion, capital flows, the unprecedented scientific and technological progress, the transition from the communist economic system to market economy have determined the acceleration of the regional and world integration process, which actually means the appearance of more business affairs for banks, firms and financial investors.

An overview of these events points out the Eurocurrency market expansion, the appearance and reinforcement of the European Union, the growth in importance of multinational companies, to which one can add financial crises, petroleum crises, the external debt crisis and the collapse of communism in Russia and Eastern Europe.

At the beginning of the 3rd millennium globalization has become a state of facts. Under the given circumstances, the international financial institutions, businessmen will have to face challenges and contempt, the so called “new rules of the game”.

Globalization also implies a series of **positive**, innovating and dynamic **aspects**, and also a set of **negative aspects** that generate problems and create marginalization.

As far as the **positive aspects** are concerned the relationships between states and individuals are now more profound than ever. Today world exports represent 25% of the GDP, in comparison with 17% in 1970.

Foreign direct investments are 10 times higher than in the 1970’s. This world integration process is the result of a **political change of perspective**, which means: seeking to promote economic efficiency by:

1. national market liberalization
2. disallowing the state to get involved into several economic activities.

Although recent technological progress in the field of communication is the basic factor that generated the appearance of the globalization process, integration is still partial: *frontiers remain closed especially because of the low qualified workforce.*

However, these tendencies mask a series of contradictions: **great progresses, but also significant delays, shortcomings and inequalities between countries and regions, poverty being nowadays a general phenomenon**. In industrialized countries poverty is masked by means of statistics, one of eight persons faces long term unemployment, life expectancy is below 60 years, and many citizens have a low qualification which does not allow the situation to be improved.

In some countries, the poverty index is quite different according to the region we refer to, as it happens with India, for example, where poverty is twice as big in Bihar in comparison with the region Kerala. At the same time, inequalities between men and women are still shocking. In many developed countries women are almost totally excluded from political life. Women occupy over 30% of the Parliament seats in only five countries in the world, in other 31 states the involvement of women in political life being lower than 3%.

If capital markets collapse then the growth of criminality rate, AIDS spread and the increase of the greenhouse effect risks will propagate in a much easier way. World threats are more and more numerous today and they surpass national and international capacity to react and suppress such phenomena.

The alternation of the expansion and recession stages with those of financial volatility is the main characteristic of the economic and monetary financial environment today.

The financial crisis in Eastern Asia as the present one in the USA, the latter having affected the whole world, has made millions of people’s lives unsure and it has reduced development perspectives in America and also all over the world. Analyzing financial crises one can draw the following conclusions:

a) **First of all lack of stability is a characteristic of globalized financial markets**. A key element that has led to the outburst of the crisis is represented by the massive and sudden injection of short term capitals followed by a similarly sudden withdrawal.

b) **The second conclusion** that is drawn after analyzing economic crises is that **access to short term capitals should be cautiously offered by governments**, especially when the institutions authorized to regulate young financial markets.

How are the present divergences going to evolve in the next century? Is globalization going to be successful in its aim to maintain balance in a world dominated by intelligence or a Faustian spirit and terrorism? The answer to these questions is to be found some day.

Who will mostly benefit of the change? Under no circumstances the European exchange offices are going to take benefit. The IT sector, the consulting and accounting companies are going to take benefit of the necessity for adapting the existing IT systems. Finally, economy is going to benefit of the integration and stability of the currency, and this is in fact the goal of the project.

As far as capital markets are concerned they have also taken the necessary measures. Securities have been issued ever since 1999 in EURO and the ones that were already issued on the market were converted. The future of the financial centres is regarded differently and for the moment a one cannot make a certain prediction. **If Great Britain joins UEM, London will be able to dominate the capital market**. The smaller financial markets like, for example Bruxelles or Milan, will have to reduce the volume of their activity. If this does not happen, there is a risk for the offshore market in Great Britain to embezzle a part of the financial activity volume generated by the EURO environment. Competition between financial institutions and centres will be more and more intense and as a result alliances on continental markets will appear.

London has an advantage in competition when it comes to financial liberalization, which allows it to take advantage from the natural concentration tendencies that are to be found in financial industry. Using the "opting out" clause Great Britain is at the moment able to avoid the accurate monetary policy and discipline imposed by ECB, London still being an offshore centre. *At the same time* the advantage that London has is step by step being reduced to the advantage of Paris which offers superior collaterals in financial transactions.

As to the products derived from the capital market, the unique currency has determined the unification of term contracts. At the same time the quotation of circular assets in EURO has given the chance to make a better comparison and it has created new possibilities for arbitration.

The potential improvement and successes in the financial field depend on the ability with which UEM accomplishes the complete financial integration of the member states, by creating a uniform system of rules on capital markets and by being as transparent as possible in the quotations and evaluations that they make.

***The efficiency and spread of monetary policy and the one referring to the central bank status are interlocked*. The impact of external constrains must not be regarded as being an absolute one:** no country can totally eliminate the adjustments that it must permanently adopt. Thus, it turns out that **a certain degree of independence** must be permanently preserved and taken into account, **which does not mean isolating from** the globalization process. Economic independence ensures security, decision autonomy and it creates the possibility for a state to make the necessary maneuver when the time comes so that every country could have the chance to step out of the game when it considers that the context is not favourable for it. Economic independence is a matter of national interest and it is a crucial dimension for the most precious capital of any state: the human capital. A country that does not make serious efforts to improve **alimentation, health, education, comfort, civilization** and in general everything that refers to **life quality**, risks to disappear from the geopolitical environment, sooner or later. Today, this is a difficult task to be accomplished because of the inequalities that exist between states.

Two external policies are absolutely necessary:

- **Competitiveness policy;**
- **Cooperation policy.**

Competitiveness policy is the key element when it comes to ensuring the possibility for maneuver. Unless we manage to ensure a satisfying competitiveness level, we are to become a colony or satellite of the economically strong states.

Although initially one said that by allowing currencies to freely float all problems will be solved and that all adjustments will accompany these fluctuations by themselves, in reality controlled floating by central banks has proved to be safer. Yet, this action turned out to be inefficient, too. The coordination of monetary and economic policies is today a necessity for the EU countries and the states belonging to G7 group.

Conclusions

The EURO start – a matter of success and skepticism

"E Day" that is to say the Euro Day is the 1st of January 2002. This was the moment when more than 300 million European inhabitants started to prove that they have something in common: the same exchange currency.

The conversion is the second part of a long process conceived in two stages. *The first step*, the electronic introduction of the Euro, was made in January 1999, when the EU imports and exports were calculated in the unique currency. After January 1st 2002, because of this event, 12 EU states and the tourists that were visiting these states remained without Francs, Deutsche Mark and Pound and they started paying for food, tickets or consuming goods in the new notes of the unique currency.

The transition to a unique currency was not only a problem of currency logistics. The immediate or long term effects, good or bad, are immeasurable.

Skepticism and mistrust – this was the position held by many western analysts after the 1st of January 2002, when the unique currency was adopted.

Naturally, a series of scenarios can be imagined for the future starting from the regulations applied nowadays and the trust credited to the unique currency.

The European unification is, however, more than an alliance or association under the ruling of several super-national institutions. The unification is possible only if the proud EU national entities know how to limit themselves and control their aspirations and if the powers characteristic of the national bodies are consciously delegated within the European Union.

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