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An historical analysis of integration processes in the economic and monetary union

RESUMEN-ABSTRACT

An economic union is a higher form of integration which is the common market. Add to this a greater degree of harmonization of national economic policies in an attempt to eliminate discrimination that may arise from disparities in such policies. As they try to advance the harmonization of common policies are difficulties arising from the transfer of sovereignty from the Member States, harmonization of monetary and fiscal policies essentially means that the governments of the region's countries have a lower margin for policy action.

PALABRAS CLAVE-KEY WORDS

Economic Integration, Economic Union, financial policies, exchange rates.

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1. INTRODUCTION

This book is an informative nature of the process of economic integration since the Treaty of Rome (1957) has allowed us to reach Europe to have a draft comprehensive economic and social importance which aims to inform students of final year students of Secondary Education this new reality that affects our recent history and future of our immediate future. The book is arranged by exposing the student to the first chapter the significance of economic integration and methodology explains the fundamentals and the phases of the European integration process dealing first with the creation of a exchange mechanism called the European Monetary System (EMS) aimed at achieving greater exchange rate stability of the participating currencies. Then in the second chapter describes the implications of exchange rate stability in pursuing anti-inflationary equilibrium, in other words, the price control objectives are linked to currency stability within the system and the problems that can be created in different countries for their asymmetric position. We want to know the influence of controls on capital movements within the operation of SME strategies and see how are you have not had significant effects on preventing financial crises to which the system has faced. The third chapter is about the economic convergence necessary to sustain the effort of the exchange rate unification. Here we have focused our attention on those southern European countries that may have similar structural characteristics. Finally, the fourth chapter lets us see the reality of the Spanish integration with convergence efforts and achievements made.

The background to the current economic and monetary union (EMU), we can put them in the constitution of the European Monetary System (EMS) in 1979. This was intended to achieve greater macroeconomic stability, achieve a high balance and monetary change between countries belonging to the European Community. To achieve its objectives, we used a mechanism whose initial operation was gradually gaining the credibility needed to become the instrument that the passage of time has allowed the claim as useful goals. Despite these efforts, the adoption of the EMS exchange rate policies were not sophisticated enough to avoid systemic crisis suffered between 1992 and 1993 where the largest financial liberalization and tariff reductions questioned its shortcomings.

This book tries to be helpful to publicize the issues, both historical perspective and from the basics, can illustrate the long road to economic and monetary unity of Europe. But can not be ignored is that this process has generated in Europe is divided between those countries that have accepted the rules in full integration of those others who for one reason or another have not been integrated into leaving the European Monetary Union (EUM) outside the European Monetary Union leading to the articulation of exchange forms that connect those within the (EMU) countries with those that only participate in the European Union (EU).

The incorporation of the euro as international appeal will produce a realignment of international financial conditions to compete with the U.S. dollar and Japanese yen in the treasured volume of reserves by central banks as well as all the issues which are denominated in U.S. dollars, resulting in the need for greater coordination among monetary authorities in the field of international exchange rate policies.

2. PRINCIPLES OF ECONOMIC INTEGRATION

Let's start by saying that the existence of a theory of economic integration which seeks to understand the problems concerning the evolution sequence of events taking place around the processes of interest in getting profit from economies of scale and expanding markets.
There is a new process in the history of economic thought, on the contrary, economic integration theory was developed from the beginning by the neoclassical school in accordance with the application of the general assumptions of international trade. The supposed comparative advantages of the integration process the benchmark for theorizing. The costs and benefits in a static model of a customs union is the starting point for economic analysis traditionally whose idea developed by the theoretical analysis of international trade is based on the idea that supports the freedom of foreign trade as a foundation for increased efficiency of the economy.

The classical theory of comparative advantage and absolute claims that free trade produces specialization of national economies according to the model of Viner (1952). In the decade of the seventies neoclassical ideas gave way to a more sophisticated theoretical elaboration which was called the "new theory" of international trade. It speaks of the new economic integration theory whose basic content is the incorporation of dynamic effects to the traditional theory. Both contributions are important for understanding international trade and its influence in explaining the process of international economic integration.

The new approach to integration was concerned to see the relationship between the origin of international trade and the forms it takes productive specialization. Several contributions have been incorporated into this bitter knowledge of economic discipline and perhaps most important has been the addition to the classical theory of concepts derived from oligopolistic competition and its dynamic effects and can highlight the following:

A) The economies of scale to alter the assumptions of Viner's trade creation and diversion as a market expansion stage companies see enlarged demand leading to ever increasing number of them acting as a mechanism antitrust

B) The integration is an opportunity to achieve external economies through linking models with intraidustriales emergence of linkages between different industrial and consumer media. This situation is an argument of considerable

weight in international economic integration. This vision has been amply explained by the "linkages" forward or backward particularly useful in studies of industrial economics.

The new concept of international trade theory modify the terms of trade that are caused as a result of changing trade patterns national eliminate discrimination. The theory derived from the neoclassical world view that exchange occurs between different products, while the new theory holds that the exchange is made on similar transactions.
The dynamic aspects such as the similarity in products, imperfect competition, and technology that affects the factor prices, modify the benefits and expectations of integration processes.

Border regions are the business benefits in the integration because the rise of regional economic interdependence of each country encourages the mobility of capital and labor in reversing gains versus external economies of peripheral regions.

The mobility of workers and the labor market should be seen within regions / countries undergoing a process of integration as intra-industry migration to take advantage, intra-regional cost differences. Empirical evidence shows little orderly migration and small scale.
Some explanations to the exchange differences are in the skills of the workforce, the differentiation of academic or language differences.

Moreover companies favor the mobility of workers from both functional and geographic perspective. Have a system that benefits working these shifts increase the efficiency of the production system through the adjustment costs.

The process of integration among developing countries is quite different from that for peasants developed. In this case the movements are produced in bulk to the country / region most developed within the integrated area.

These movements also occur between underdeveloped regions on the basis of income differences that exist between them being particularly strong between areas of the Periphery.
The movements in the capital markets are very sensitive to economic integration processes it can benefit all countries that liberalize their transactions primarily benefit if there are opportunities that can be expressed as:

A) Capital gains are created by the set of transfers in long-term investments determined by FDI (Foreign Direct Investment) as this type of investment favors the creation of productive fabric in the region by increasing the efficiency of all economic activity.

B) Transfers of technology often be another of the attractions of the liberalization and financial assistance to subcontractors of multinational companies that often are behind the free movement of capital.

C) The liberalization of capital markets reduces the risk from exchange controls on trade in goods and services allowing an increase in trade.
D) The free movement of capital allows optimally match the performance of financial investments between countries because it allows the possibility to access a wider range of productive sectors by taking advantage of differences in productivity.

We can summarize the international economic integration as the process that promotes and implements the progressive elimination of barriers between countries and economic discrimination.
Integration is a process where two or more previously separate national markets and unsuitable estimated unit sizes come together to form a single market (common market) of a suitable dimension.

What is and what pursued economic integration?

1. It is a historical and political reformer process of economic institutions takes place at their discretion.

2. Set of actions that tend to harmonize or unify the economies of member countries.

3. Such a process is the result of international agreements that are intended to reduce or eliminate the collection of tariff and non tariff restrictions that hinder or impede international trade.

The principles are:

a) The principle of non-discrimination by nationality, that is, respect for basic economic freedoms (trade and movement of production factors)

b) The principle of subsidiarity, is member states cede sovereignty in their economic powers in what is strictly necessary for the development of common institutions.

Its objectives are based on the benefits to be derived from:

1. Capital accumulation

2. The international division of labor and hence of production specialization, and
3. The increase of territory, is market

The institutional implications of the integration process are generally:

a) The gradual nature

b) Instability resulting from the political discretion in their implementation

c) The implementation of economic policies affecting: foreign competition (elimination of tariffs between EM, common external tariff for non-members and fixing the exchange rate)

The internal competition (competition policies to prevent discrimination and consumer protection, antitrust policies, monetary policy, defense, immigration, etc.). The steps that usually go through the process of international economic integration are sequenced as follows and will be seen as greatly impact pyramid:

1. Preferential trade. Is one that member states grant each other trade preferences established between the s that we find lowering tariffs, removing trade Travas or otherwise reducing the external protection. Trade agreements are not accepted by the regulations issued by the General Agreement on Tariffs (GATT) to understand that discriminate against third countries.

2. Free Trade Area. They consist of members who make them disappear from any limitation to the exchange but keep it towards third countries. The area thus presents a serious limitation set for those countries not belonging to it can make exports to the country with the lowest level of protection and re-exported from there to the country for the country with the highest tariff.

3. Customs Union. The agree to participate in this model eliminates any duty between them and simultaneously agree to replace its external tariffs against third countries by a common tariff involving a major foreign unprotected against the rest of the world 4. The Common Market is built on the basis of a step in the process of extending its impact commercial unification until the incorporation of certain economic policies common micas and removing any impediments to free movement of production factors. Its members avoid each other restrictions on free movement of capital, labor may coexist joint action of some sectoral policies. The articulation of the Common Agricultural Policy (CAP) in the EC is a clear example of this conduct. 5. The Single Market is a complementary form of the common market. If in the latter there are physical barriers (customs) and technical boundaries and tax the next step is simply to proceed to its elimination. The construction of a single market necessarily entails the harmonization of rules governing the production, distribution, including fiscal measures. Since these are complex in their development, the European experience ranges chose to set tax rates so that all countries will find location between tax collection and tax aspects.

6. If we talked in the previous phase of the construction of common sectoral policies, Economic Union in the coordination of macroeconomic policies both monetary and others that tend to promote a better allocation and distribution of resources are part of this phase of the integration process . Policies aimed at strengthening structural change and regional development are of main interest. Fiscal policy both from the side of tax revenues of the joint expenditure remains at this stage, in the hands of regional governments but the figures are harmonized tax and accounting rules on financial management.

7. The next phase involves monetary union called reforms in economic policy-reaching, setting irrevocable exchange rates between member countries and the creation of a single currency to replace the member countries is the knot more difficult to execute. The risks for the countries involved is remarkable to ignore a basic tool in the control of economic imbalances, requiring a transition to run this phase of the economic integration process.

8. Finally, the Full Economic Union means the implementation of fiscal policy and social security within the Community scheme. Governments of member countries thus lose all its autonomy in economic policy. In addition, this phase can be complemented with the integration of defense policies and external action, forming an integrated area where and at what matters is not the country but a new supra-state order. The stages of economic integration have common features that we must expose:
1. The pyramid of integration is not defined stages in time or in the process may have overlapping or be unfinished.

2. The stages are due to a dynamic whereby its members slow down to find insurmountable obstacles or continue the ascent in the scale of integration by removing the disadvantages.

3. Any process of economic integration entails costs for companies which decide. Governments or their citizens should show s the significant advantages and drawbacks of integration. Not an easy task because of the complexity that comes with this type of processes but there is no doubt that an accurate and transparent information to help understand the risks that integration brings.

3. FUNDAMENTALS OF EUROPEAN INTEGRATION

We will focus on European Monetary System (EMS) and its history and its consequences in various aspects of the economy of the establishment of the Euro Zone and its development.

3.1. A historical process.

In the Treaty of Rome establishing the European Community (1957) was the basis for the creation of a common market as defined above. Rome agreements did not extend to obtaining a European currency area although it introduced a way to solve certain problems of monetary policy and its coordination with exchange rate policies. The six countries signed the treaty (Germany, France, Italy, Belgium, Luxembourg and the Netherlands) after several payments clearing arrangements after the Second World War it produced the first intra tariff reduction (1958). In December 1958 he was the European Monetary Agreement (EMA), very similar to the Bretton Woods. In the monetary framework of this agreement the currencies of the members of EMA on

the dollar could fluctuate by + / - 1.5-0.75%. The system of fixed exchange rates with fluctuation band was intended to give stability to the international monetary system will be subjected to all sorts of tensions. So the 1960 is home to a favorable cycle for the European currencies and instead a major instability in the dollar, causing the first friction over exchange rates of EMA. The European authorities understood that the policies of countries should be coordinated and could not be made outside the European Community. He established the first Barre Plan, with the aim of achieving a convergence plan for the country's economic policy and monetary cooperation. The problems of existence of the multitude of fluctuating currencies, appeared on the implementation of agricultural policy that was affected by the devaluation of the franc (1969) affecting the minimum guaranteed price set by the CAP. In 1970 appeared the Werner Plan, proposed the creation of a European fund of a monetary nature that assisted with problems of foreign exchange transient in the exchange rate, also aimed to achieve in ten years the fixed and irrevocable calved. This plan was parity linking European currencies to the dollar and therefore continued to be affected by the crisis in the international monetary system.

Already by this point the dollar could not support the needs one kind of parity with the major world currencies (frame, yen, Swiss franc) and the uncertainty of its convertibility led to the suspension of gold convertibility in August 1971. One solution proposed is the increase of the fluctuation band established by the Smithsonian agreement but could cause great difficulties in the implementation of agricultural prices in the community and therefore results are not consistent with those pursued by the CAP. To avoid the European Economic Community, the decision to maintain the stability of agricultural prices offsetting exchange differences that might arise. In the Basle Accord (1972) the rancid core of member states agree to set a maximum fluctuation of + / - 2.25% on the dollar, leading to what is known as the snake in the tunnel to be movements of currencies Europe within the band and simultaneously moves in the dollar.
The success of this mechanism of monetary policy changes by providing a stable exchange rate encouraged the Commission in 1977 proposed the creation of the European Monetary System (EMS) is finally established by the European Summit in December 1978 and became operational in March 1979.

3.2. European Monetary System.

The EMS is structured as a set of monetary and financial relations regulated by institutions of national and international level aimed at obtaining a stable exchange rate. This monetary system had three basic commitments:

1. The first is institutional commitment to arbitrate its own currency of the Community which was called the ECU (European Currency Unit). This is a basket of currencies, whose composition is fixed and based on national

currencies of the countries subject to the system and maintained with adjustments every five years.

It has three functions:

A) Serves as the reference currency of exchange for each of the currencies outside the system and the indicator of divergence.

B) From the moment the EU budgetary and financial operations are expressed in the unit of account.

C) Offsets between the central banks were made with this payment instrument.

2. The second exchange rate commitment will be the establishment of a system changes and intervention mechanisms, the first is the formation of central rates of each currency are converted at the exchange rate between the currencies belonging to the ECU to ensure coordination of monetary policies among member states. The second concerns the intervention mechanism aimed at devising a tool in the hands of central banks to act when currencies subject to the discipline rub a divergence in the fluctuation of 75%.

3. The third commitment is the creation of a European Monetary Cooperation Fund, whose functions include: manage reserves in gold and dollars, to issue ECUs, accounting and settlement operations with central banks and among them, and give credit to weak economies, was the organism was the forerunner of the European Monetary Institute (EMI, 1994) and later the European Central Bank (ECB, 1998).
Today we see that the European Monetary System could achieve success on monetary stability in Europe tending into account the enormous difficulties of a difficult external environment with great volatility in financial markets. The existence of the ECU allowed the private and public institutions could issue securities denominated in ECU and accept deposits. Today we can say that the experience gained with the introduction of the ECU as the unit of account was used to establish the principles of the single currency with the entry into force in 1987 the Single European Act, the prospect of achieving the Internal Market and finally studies set as their objective to establish a true monetary union.

3.3. Monetary Union.

Jacques Delors, President at the time of the Committee prepared a report which was submitted in April 1989 and was rejected by the British government, it laid the basis of the discussion agenda on European Monetary Union by designing three stages which contained no previous calendar application. He was thus a set of objectives that should be discussed in the following European summits:

A) The monetary union was defined as an area of total and irreversible convertibility of currencies

B) Complete freedom of capital movements in financial markets to which should be integrated.
C) The introduction of a fixed irrevocable exchange rates without margins of fluctuation for the transition to a single currency.

Temporarily phases were carried out as follows:

Julio 90-December 93: Member states should follow the lines of convergence in economic policy adopted by the Council. The most important step of this phase was to approve the Treaty on European Union (TEU).

Enero 94-December 98: Maybe it was the most important economic integration. The member states converge on financial indicators and take appropriate decisions for monetary union.

Enero 99-July 02: The member states have implemented the single currency and the economy functioned as a single monetary system.

Delors Report and the Green Paper on the Introduction of ECU as the single currency (1995) one can infer a number of advantages and disadvantages of establishing a monetary union:

- Enhancing the Single Market through the elimination of exchange rate uncertainties.
  The single currency will provide an impetus to growth and jobs, through better channeling of savings and the existence of a central bank inspiring stability.
- Elimination of exchange transaction costs.
- Reference currency alongside the dollar and the yen.
- Loss of national sovereignty in monetary matters.

3.4. European Monetary Union as optimum currency area.

In this respect cross many theories about the European Union. Some authors consider that the Monetary Union is an optimum currency area, while others just the opposite: some advocate the symmetry of the shock and its asymmetry. We will continue the analysis by Krugman and Obstfeld mind wiser and closer to the European reality. The parameters used by the authors to estimate whether we have a European optimum currency area can be summarized in two, the degree of economic integration (measured in intra-European trade) and mobility of labor.

The greatest benefit of a monetary union there is the greater the degree of economic integration between the region and the country to integrate.

As seen in intra-European trade data, the weight of this trade is not really relevant to Monetary Union (EMU) as an optimum reference in the criterion of economic integration. Not even with the disappearance of most trade restrictions in this percentage increased significantly. There is also an effect of non-convergence of prices in some products. The problem of labor mobility in Europe has great cultural tinge, the linguistic and cultural difference in a lot mark the low degree of labor mobility. This lack of mobility exists even within most European countries. Therefore another indicator of an optimum currency area fails again.

Despite the high degree of intra-industry trade that occurs in Europe, there are also many differences between the economic structures of European countries (eg in the North-South). Do not know how these differences evolve with the common market if it increased or reduced. And last reference to a genuine lack of fiscal capacity, with which the EU has not, in the absence of a budget or account or collection capacity, with which for example has its touchstone USA

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