AICEI Proceedings, 2012, Volume 7, Issue 1
DOI: 10.5281/zenodo.4502650

AICEI PROCEEDINGS

The Transformation of Institutions of the European Union towards a Stronger Common Economic Policy

Zoran Sapurik, Ninko Kostovski, Elena Klisarovska

Abstract

Recent developments in the European Union in the field of economic policy show the need for redefinition of certain aspects of the common activities. The consequences of uncoordinated government spending and fiscal and monetary activities in the member states are evident. It led to large budget deficits in some member states which have caused a range of threats to their macroeconomic stability and to the overall macroeconomic stability of the entire Union. This requires urgent harmonization of the national economic policies if further endangering of the value of the common currency, the euro, is to be avoided. The European Council meeting, in December 2011 and in March 2011, recognized the deterioration of the economic and the financial situation in the EU and called for full implementation of the European Union's New Economic Governance; aiming for further confidence in the European economy. The reforms of the EU institutions are expected to yield stronger competencies to influence the implementation of common policies and legislation.

The main aim of this paper is to put in the limelight the needs for reforms of the EU institutions towards a higher coherence of the common policy, and to offer recommendations for further actions. The Republic of Macedonia, as a state with aspirations for full membership in the EU, has to continually and carefully follow the developments in the area of the prospective reforms of the EU, and whenever it is viable to meet the relevant national targets for the government spending, the public sector and the overall national debt. We surveyed the history of the EU, as well as other monetary unions such as that of the USA, and it seems that both suffer certain volatility. However, it also seems that more recent and/or less economically integrated monetary unions are more prone to it.

Keywords: economic policy, common policy, EU institutions

Introduction

Monetary unions are agreements between two or more states with the aim to share their currencies or to issue new common currencies. The term covers only agreements between fully sovereign states. However, monetary unions do not apply to the common currencies of the national federations such as the United States, the old Austro-Hungarian Empire, former Yugoslavia, Czechoslovakia or the USSR. Based on the level of concession of the national sovereignty to some form of central monetary power they can have two basic forms, with (1) independent or with (2) pooled monetary authority. There are also examples of informal monetary unions, when one country, usually a smaller one uses the currency of some other state as legal tender on its own territory. This can be an interim model until establishment of monetary authority or a permanent solution with the idea of making transaction costs smaller. For example Montenegro and Kosovo, use the euro although that is not fully recognized by the European Central Bank.

Some other countries like Turkey use world currencies like the euro and the dollar in parallel with its own, thus having full internal convertibility of its national currency. The Republic of Macedonia, in fact, inherited a similar system from Yugoslavia, in which the state allowed its citizens and businesses to save in hard currencies and keep a blind eye toward the actual ways of how they obtained them. This was an asymmetric, dual in fact, currency system, with many virtues of the real monetary union was the hedging for the currency risk in the era of high inflation in former Yugoslavia. Despite the strict adherence to the policy of attaching the Denar to the Euro, ever since its political and monetary independence, people in Macedonia still prefer saving in Euros and the majority of transactions in the country, particularly in the regions with higher rates of economic emigration, are in fact in Euros. This implies that the people and the businesses would easily and eagerly accept the Euro as the only legal currency in the country. Ironically, it appears that Macedonia, in the terms of formal requirements related to the budget deficit and the level of public debt, performs much better than some of the Euro countries and is very close to the formal requirements. The EU on the other hand, has institutions that regulate these issues and this paper argues the transformation of the same for a better union.

The Treaty on Stability

Latest developments in the European Union show the need for strengthening the cohesion of the Union in many spheres, especially in the sphere of the economic and monetary policies. Only by strengthening the competencies of the Union's institutions is this considered a possibility. The Statement by the Euro area heads of state or government from December 9, 2011, on reinforced architecture for economic and monetary union ("Statement by", 2011), clearly shows the determination of the European Union for redefinition of many aspects of common activities. As a result of the intensity the European Council adopted the Treaty on Stability, Coordination and Governance in the Economy and Monetary Union known as the Treaty on Stability and as the Treaty on Fiscal Stability. The expectations are that the Treaty will come into force in the beginning of 2013, after its ratification in the national parliaments of twelve member states. Despite some skepticism from the Euro skeptics, the Treaty on stability was signed by 25 member states. It was not signed by the United Kingdom and the Czech Republic. The Czech Republic might sign the Treaty, after consultation with the national parliament. The British position, for now, is not to sign The Treaty on Fiscal Stability. But, with or without all member states, the European Council, as an EU institution, which has the power to adopt the most important strategic, legal and political acts, has a strong determination to tackle the big problems in the economy and monetary spheres. Right at the beginning, the Treaty on stability opens some legal, political and other dilemmas, which will be elaborated in this paper.

Reforms and redesign in the sphere of the economy with a strengthening of the competencies and the powers on the European Union's level are needed. It means stronger power and competencies in the EU institutions. One of the most important questions in the context of strengthening common activities on the Union's level is: "Could the EU institutions receive stronger power in the sphere of the economy, without amending the basic EU treaties: The Treaty of the European Union (Treaty on the EU, 2010) and the Treaty of the functioning of the European Union (Treaty of the Functioning, 2010). To better understand the issues elaborated here, it is crucial to have a look at the monetary unions in the past and identify their strong and weak points.

A History of Monetary Unions

Surprisingly, the European history is rich with several examples of successful or unsuccessful monetary unions. The first functional union was that between Great Britain, France and the United States, and originated in 1867. The idea was that all three countries standardize and then mint equally and thus have fully interchangeable gold money. The attempt proved not viable. Another concept started simultaneously and was called the Latin Monetary Union, which proved quite viable and sustainable. It encompassed Belgium, Italy, Switzerland, and France, and in its latter phase Greece. The Scandinavian Monetary Union was established in 1873 between Sweden and Denmark and later Norway. It lasted an impressive 58 years and was finally dissolved with the great depression in the thirties. In the area of the former German states there were two separate unions: on the North it was the union of states that used the Florin and in the South the union between the states that used the Gulden. Austria was also a member of the Southern union between 1857 and 1866 when the Austro-Prussian War erupted. In 1922 Belgium and Luxembourg established their own union. The concept proved successful since it finally was transferred into the union of the Euro in 1999. The Belgian and the Luxembourg francs existed in parallel, but only in the case of Luxembourg were they fully in use. Despite what was declared, the Luxembourg monetary authority was mainly a big lame duck institution and its Frank was not in use in Belgium at all. This fact today pours additional oil on the fire in the camp of those concerned about the surrounded sovereignty and suppression of the small nations in a large agglomeration such as the Euro zone. Nevertheless, the Euro zone, ever since its beginnings in 1999, continuously drives astonishing interest among academics and business people all over the World. It was a unique case in which established states and big economies engaged in a gigantic experiment of unprecedented proportions. The idea is brave, while retaining political sovereignty; member governments have formally delegated their monetary sovereignty to the European Central Bank. Despite the failure of many past initiatives, the future could see yet more joint currency ventures among sovereign states (Cohen, 2012). Monetary unions are considered in many parts of the world, like in Latin America. However, to develop the Mercosur integration into a common currency area, the member countries should further improve their economic performances and act in such a way that shows they are unified under a single goal (Numa, 2011).

The Advantages of Monetary Unions

One thing is definitely clear. The idea of a monetary union is much older and with a considerable track record than the history of the Euro, and the perils that this common currency is facing are much more related with the (lack) of fiscal and monetary discipline of the member states than the disappointment of the advantages of the common currency area. The Euro zone has proven to have a sustainable currency union. However, there must be a fiscal integration to absorb and smooth economic shocks. If the ultimate goal is a monetary union, then an economic union should also be taken into consideration (Numa, 2011).

The main virtues of a stabile monetary union are the same that can be attributed to any prudent national monetary and economic policy: the maintenance of the public spending on a "short leash" and the preference to long term stability over short term spending binges. However, the fact that the mandate of any political option in a normal democracy is put on a test every fourth year, the temptation to take the advantage of the shortsighted spending sprees in order to acquire another mandate will always be very high, particularly if we have in mind that the painful reimbursement always lags at least several years and is transferred to the succeeding political option. The budget deficit, in the strategic political games, acts as a political poison pill for any successor. That is way, in any economic crises it is not a problem to provoke the government to demise, and it is much more difficult to find an alternative political candidate keen to take charge of the helm! That is why Rose (2006) argues for a strict no deficit carry-over rule in order to preempt the pre-election spending and the post-election restraint patterns that typify political business cycles.

For the sake of the truth it must be stressed that even among the economists there is a lack of consensus over what is to be considered a prudent monetary policy and what is a stable or balanced budget. For some schools (particularly more conservative ones) a balanced budget has neither a deficit nor a surplus and the total revenues equal total expenditure. According to the Modern Monetary Theory the level of taxation relative to the government spending is a policy tool that regulates inflation and unemployment, and not a means of funding the government's activities per se. Most economists today agree that a balanced budget would decrease interest rates, increase savings and investment, shrink the trade deficit and help the economy grow faster over a longer period of time. The budget is seen as a control rod that when released heats the “chain reaction” of the economic activity and when fully deployed in a surplus, cools it down. Some others advocate for cumulative budgeting in which case the budget deficit can be offset with the consecutive budget surplus. This budget is cyclically balanced over the entire economic cycle and runs in a surplus in boom years and a deficit in lean years. However, there are economists which claim that the balanced budget can be economically destabilizing. Daniel Smith and Yilin Hou refer to the work of Schmitt-Grohe and Uribe (1997) and that of Levinson (1998) that the balanced budget requirements effectively exacerbate business cycle fluctuations.

Comparative Study of the Economy of USA, Countries in the EU and Macedonia

Over the Atlantic, in the USA, the budget issue is a subject of overheated political debates. Virtually all states have balanced budget amendments and some even ban large budget surplus (more then 2%). Oregon and Colorado refund their taxpayers if that happens. It seems that in Europe, in general, the public was not so sensitive when the budget deficit was on the agenda. However, when over-borrowing in both the public and private sector leads to a banking crisis, like in the case of Sweden at the beginning of the 90s, the case of Iceland, almost a decade later and ultimately with the massive debt crisis of Greece, but also that of the Spain, Italy and Portugal, the wide political consensus developed on fiscal prudence that asks for maintenance of the goal of 1 % over the business cycle, for the sake of the truth, with the pensions no longer considered a government expenditure.

A short desk study of the current situation in some of the EU countries reveals rather interesting facts. In France the budget is almost entirely a domain of the executive power. The Constitution stops the national assembly and the senate from making any amendments to the budget proposed by the government. Once approved by the parliament, the government may make adjustments of up to 2% without having to seek any further parliamentary approval. Since 2011 the French government introduced a bill to amend the Constitution in order to ensure an entirely balanced budget. The latest data show that the French budget deficit fell to approximately 91 billion euros at the end of 2011, from a record of approximately 149 billion euros in 2010. This was understood as a clear step forward for the second-biggest EU economy towards getting its finances in order according to *The Economic Times* (2012). Similarly, after years in which Germany also failed to meet the EU imposed budget deficit rule, the biggest Euro economy budget in 2011 fell from 4.3 in 2010 to 1% percent of the GDP, or well below the 3% current EU target. The expectations for 2012 are that the trend will, despite the election, be sustained. This impressive result is primarily due to the strong economic growth of 3% in 2011 which boosted the tax revenues (German Budget Deficit Plunges to 1 Percent of GDP, 2012). The current deficit of just 25.8 billion in the case of such a big economy looks rather impressive, particularly from the viewpoint of its counterpart over the Atlantic, the Federal administration of the USA and its deficit between 8 and 11% of the USA gross domestic product, mainly thanks to the "socialist" flavor of Obama's plans and the previous gratuity in the tax cuts of the Bush's administration (US Federal Deficits in the 20th Century, 2012).

Greece failed to meet the EU budget deficit target (3% of GDP) in the early 2000s and then met it shortly in 2007 and 2008. The country budget deficit skyrocketed again in 2009 to a record 15%. Unpopular austerity measures managed to reduce it to a one digit figure (approximately 9%) in 2011, but the outlook is rather gloomy (Greece, 2012). Nevertheless, while the notorious "Mediterranean easygoing Four: Greece, Portugal, Italy and Spain dominate most of the negative press when it comes to debt in Europe, some other economies like that of the UK are also big underachievers when it comes to the overspending discipline. The UK budget deficit is approximately 168 billion pounds, settled between the 13% in 2010 and the 10% of the 2011, or well above the old EU target and not to mention the new. This partly can explain why David Cameron pulls the "patriotism" and "sovereignty issue" cards from his sleeve. There is no chance that the UK will meet the EU target of 1% budget deficit in due time, at least not without violent street riots like that of the August 2011 (The UK's budget deficit, 2012).

After the impressive descent of the Croatian budget deficit from 10% in 2004 to the lean 1% in 2008, it seems that buying the wide public acceptance of the EU accession was paid with 3% budget deficit in 2009 according to the Ministry of Finance of Croatia (2009). A similar situation, although due to reasons other than EU accession, can be seen in the case of the Republic of Macedonia. From a surplus of 0.6% of the GDP in 2008 the country budget deficit first jumped to 0.9% and then to 2.7% in 2010, according to the IMF (2012). Many economists suggest, even those close to the government, restraining the spending enthusiasm, particularly in the case on non-productive buildings and monuments. The argument of the other side is that the government simply follows Keynesian doctrine and uses it, it must be admitted, still mild deficit, for bustling the rather stalled and skeptical business sector, particularly in the situation when the country is very strict regarding the low level of its external debt, fixed currency rate and restrictive credit policy and control. Under these circumstances, 2 percent points of budget deficit above the new EU target are the only excess money in the economy.

	Annual change in GDP		Budget deficit as a pct of GDP		Public debt as a pct. of GDP	
	2009	2010	2009	2010	2009	2010
Greece	-2.0%	-4.0%	13.6%	8.1%	115.1%	131.0%
Ireland	-7.1%	-0.6%	14.3%	12.0%	64.0%	88.2%
Portugal	-2.6%	1.1%	9.4%	8.2%	76.8%	82.4%
Spain	-3.7%	-0.5%	11.2%	9.3%	53.2%	63.5%
Germany	-4.7%	3.3%	3.3%	4.1%	73.2%	72.5%
Euro zone	-4.1%	1.6%	6.3%	6.0%	78.7%	84.7%

Source: Wall Street Journal

The Future Perspectives of the New Treaty on Fiscal Stability

The European Council meeting held in Brussels on December 9, 2011 adopted the conclusions relating to the current economic and financing situation. The European Council, as an EU institution which has competencies for adoption of strategic decisions, documents and legal acts, recognized the worsening economic and financial situation and underlined the need for establishing the new measures against the economic crisis in the conclusions. The Council shows strong determination for structural reforms and fiscal consolidation in the Union. It is a very important step toward signing the Treaty on Fiscal Stability. The heads of the EU member states agreed that stronger monitoring of the fiscal, financial and economic activities in the member states is very important for the future perspectives of the Union's macroeconomic stability. The Council also stressed that economic and financial instability in the last two years produced a serious increase of unemployment.

In the same session of the European Council another Statement (Statement Euro area, 2010) was adopted, by the Euro area heads of state or government (France and Finland are represented in the EU Council by the president of the state, the other twenty five members, according to their national legislation, are represented by the their prime ministers), which presents a strong will for moving towards a solid economic union, together with strengthening the activities in the sphere of economy and finance on the EU level. In the future, the Commission must be granted stronger competencies in the economic, financial, fiscal and many other spheres, possibilities for stronger monitoring of the member states' activities and a power to sanction the member states, which is not in the common policies and common legislation. Only with more coordinated fiscal cooperation and strengthened economic policy coordination is this possible.

It is clear that Germany and France have the main role in adopting the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Germany and France have been pushing the new Treaty on Stability since the end of 2010, when the situation in the field of economy in almost all member states started to have stronger negative effects. The Treaty was signed by 25 member states, excluding Britain and the Czech Republic. Britain for now, as we have mentioned, refuses to sign the new Treaty, while the Czech Republic will probably sign the Treaty after a debate in the national parliament. The expectations are that the Treaty will come into force after its ratification from the national parliaments in at least twelve member states, which should be done by the beginning of 2013. Only in Ireland, the Treaty will be ratified after the referendum. In the case of rejecting the Treaty on Fiscal Stability in the referendum, Ireland in the future will not have the right to use financial support from the new EU stabilization fund. Adopting the Treaty from the 24 states without a referendum, or other types of consolation, shows a great determination of the political leaders, and also their readiness to take urgent actions for solving serious economic problems. They also show readiness to undertake full responsibility for adoption and enforcement of the Treaty on Stability.

For the time being, the idea of changing the Lisbon Treaty in the short future period, which was the primary goal of Germany and France, will suffice. The position of France and Germany is that the Treaty on Stability can be successfully enforced without changing the Lisbon Treaty. It seems that it is the most controversial issue related to the Treaty on Stability. But, despite numerous Euro skeptics, the Treaty opens completely new future perspectives for the Union's economic, monetary and fiscal policies with firmer cohesion. But, the Treaty also will have a strong influence on the whole EU perspective and it is a big step toward redesigning the EU. From the long term perspectives, it will result with the changing of the Treaty of Lisbon, which means changing the Treaty on the European Union and the Treaty of the functioning of the European Union, as basic EU treaties. The Fiscal Stability Treaty opens clear perspectives toward stronger cohesion of the Union. It is an important phase toward a fiscal Union, which is one of the main goals on the way for building stronger economic cohesion of the EU. It is not only important for the 17 member states but it has an importance for the whole Union.

According to the Treaty on Stability, the budgetary position of the general government of a contracting member state shall be balanced or in surplus. The member states which signed the Treaty agreed to strengthen the economic pillars of the Union by adopting a set of rules intended to foster budgetary discipline through a fiscal compact and to strengthen the coordination of their economy, thereby supporting the objectives for sustainable growth, employment, competitiveness and social cohesion. The Treaty produces the obligations that general budgets shall be balanced or in surplus and annually structural deficit shall not exceeded 1 % of nominal GDP. The public debts of the member states should not exceeded 60% of GDP. In those strict conditions, the aims of building a much stronger fiscal discipline are visible. It is important to underline that the strengthening of the cohesion in the Euro zone is one of the key preconditions for the economic and financial stability in the whole Union. The stabilization of the Euro will have positive impacts on the economy of the EU, and all of Europe, taking into account the influence of the EU economy on Europe.

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, opens a question: "Are the changes in the basic EU Treaty necessary for the enforcement of the Treaty on Fiscal Stability, or the enforcement is possible only with the changes in the secondary EU legislation?" In Article 3, paragraph 2 of the Treaty and Fiscal Stability, there is a provision that the rules relating to the stability, coordination and governance in the economic and monetary Union, will take effect in the national law of the contracting states at the latest one year after the Treaty on Stability enters into force. It means that the full implementation of the obligations of fiscal discipline and other measures will happen after transposition of the fiscal obligation from the Treaty on Stability into the national legislation. But there are some opposing arguments. For complete implementation of the goals coming from the Treaty on Stability, changes in the EU primary legislation (the EU treaties) are necessary. That means that a sufficient legal framework for complete enforcement of the Treaty on Stability would not be satisfied only with the adoption of secondary legislation of the EU. This is an important point because according Article 48 of the Treaty on the EU, changing of the basic EU law (basic treaties) must be agreed unanimously with consensus of all member states and ratified by all member states.

But it is important to consider that there are many arguments in favor of the enforcement of the Fiscal Stability Treaty without changes in the primary EU treaties. It can be supported with the argument that in Article 4, paragraphs 3 of the Treaty on the European Union, it is stipulated that the member states shall take any appropriate measure, general or particular, to ensure fulfillment of the obligation of the treaties or resulting from the acts of the institutions of the Union, and the members-states shall facilitate the achievement of the Union's tasks and refrain from any measure which could jeopardize the attainment of the Union's objectives. Article 20 of the Treaty on the EU gives a legal framework for enhanced cooperation between the member states. Furthermore, Article 121 of the Treaty of the functioning of the European Union defines measures for closer cooperation of the member states in the field of economic policy and monitoring of the economic development in each of the member states. Article 126 of that Treaty confirms that member states shall avoid excessive government deficits. Article 136 of the same Treaty regulates undertaking specific measures on the EU level for member states such as strengthening the coordination and surveillance of their budgetary discipline, setting out economic policy guidelines for them, while ensuring that they are compatible with those adopted for the whole Union. According to the Treaty for the Functioning of the European Union, member states that use the euro may establish a stability mechanism to be activated if it is indispensable to safeguard the stability of the euro area as a whole. These legal provisions and also the fact that the Fiscal Treaty on Stability will be implemented into the legal systems of 25 members states which signed the Treaty, has disappointed some viewers, especially in the United Kingdom, (which refused to sign the Treaty), that the new Fiscal

Stability Treaty is outside the domain of the primary EU law. The UK refuses to sign the Treaty because of the assessment that the Treaty does not cover their national interests. It confirms that the comments about the collision between the new Stability Treaty and primary EU law in fact are more politically, than legally supported. But also, it is good to note that from the long-term perspective of the process of strengthening the cohesion of the EU in the economy and fiscal areas, it will be useful to make changes in the primary treaties, which will enhance the powers on the EU level, especially the power of the Union's institutions.

The Position of EU Institutions versus the New Stability Treaty

Since 2007, when the drafting of the Lisbon Treaty was compiled, it is evident that the reinforcement of an extensive discussion about the character of the structure and of EU cohesion is much needed and an answer to the question: "Does the Union function as a community federation or confederation?" But it is not possible, according to current Union construction, to give a simple answer. The EU has elements of a confederation and also elements of a federation and exists as a community which is between a federation and confederation. That construction, despite many other considerations, is a result of the position of the common institutions. Some of them, like the European Parliament and European Commission act like federal institutions and some like the Council of Ministers and European Council act like confederative institutions. Also, in the field of a single market, the Union has a number of federal elements but for example in fields of defense and foreign policy the Union has more elements of a confederative construction than a federal construction.

The strengthening of the concept of European integration has been going on for more than fifty years. That process in some periods goes faster, slower but obviously it shows the continuation of the integration process. The growing membership of the Community/Union demonstrates the extraordinary attractiveness of the multinational integration process (Mouses, 2006). The institutions of the European Union are the moving power of the Union, they are very often named as the vehicles of the European Union. The member states, building common activities, give up some aspects of their sovereignty and transfer a part of the sovereignty to the European Union and its institutions. The institutions formulate, adopt and effect the common polices and common legislation. Regardless of how the institutions are formed, elected on the EU level, like the European Parliament, European Commission, or they are composed by nomination by the member states, like the European Council, Council of ministers, Court of Justice of the European Union and others, the EU institutions have been working on building European identity permanently. The EU institutions have numerous advantages compared to the institutions of the member states. They concentrate financial, human, technical, technological, expertise and other common resources on the EU level, which makes it much easier, more efficient and effective to achieve the common goals. The institutions of the EU directly reflect the Union's most fundamental goals (Peterson & Shackleton, 2005). The needs for strengthening the power do not only come from the current financial and fiscal problems. They also come from the permanent process of the enlargement of the EU, from 15 member states before 2004 and 27 member states now, and expecting further enlargement. There is almost a universal agreement in the EU that fundamental institutional reforms are needed to ensure that an enlarged Union can function effectively (Odenaren, 2005). The position of the EU institutions depends on the level of the common integration because the Construction of the European Union is a question of organization (Cini, 2005).

The Treaty on Stability promotes further strengthening of the role and of the position of the European Commission. The Commission, according to the Treaty on Stability, has a right to monitor the enforcement of obligation for fiscal stability. Building stronger economic cohesion is not possible without a strong position for the European Commission, and it is realistic that the Commission will develop in the future to a real EU government. The viewpoints that the Treaty on Stability and especially the functions of the EU institutions, which are stipulated in the Treaty, are outside EU law are incorrect because the above-mentioned legal framework shows the opposite. The biggest discussion is related to the right of the Court of Justice of the European Union to impose fines for breaching the stipulated fiscal rules.

Conclusions and Recommendations

The greatest advantage of monetary unions is that they lower the transaction costs and the costs of hedging the export arrangements for the exchange rate risk. However, while the advantages on the side of the individual economic entities are clear there are some important disadvantages for the national governments engaged in some sort of a monetary union. They lose effective control of the money supply and the exchange rate, the two main monetary policy instruments to cope with domestic or external disturbances. Against a monetary union's efficiency gains at the microeconomic level, governments must compare the cost of sacrificing the autonomy of the monetary policy at the macroeconomic level. These governments cannot even take the advantages of deliberate depreciation of its national currencies to offset some of the social pressures while paying more but less valued money (Cohen, 2010). A monetary union among autonomous countries cannot simultaneously maintain an independent monetary policy, national fiscal sovereignty and a no-bail out clause. These three features make up an impossible trinity, and attempts to preserve all three concurrently will ultimately end in failure. In order to save the EMU, one of these three must be abandoned (Hanno & Aloys, 2012).

It is evident, besides the numerous political and legal dilemmas, that the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union opens an opportunity for fiscal consolidation of the 25 member states which adopted the Treaty and the European Union as a whole. It is an important step toward financial stability. This Treaty does not replace the basic EU treaties, but it opens an opportunity for stronger cohesion of the Union, besides the fact that two member states still haven’t signed the treaty. From the optimistic point of view it is realistic that the Czech Republic and United Kingdom in the future will accept the Treaty and after that the basic EU treaties will be changed. However even without adoption from all member states the Treaty produces fiscal responsibility for the 25 member states. The Treaty is an important step toward stronger economic and financial cohesion of the EU. It will have a stronger influence in building the cohesion in other spheres. In the process of further building a strforonger position the European Union’s institutions, especially of the European Commission, the determination of the UK not to sign the Treaty on Stability for now seems very firm. But also it will be very positive for EU cohesion to make further negotiations between the EU and the UK and Czech Republic about the future process of fiscal discipline and fiscal equalization.

References

Consolidated version of the treaty on the European Union. (2010). *Official Journal of the European Union*, doi: C 83

Consolidated version of the Treaty on the Function of the European Union. (2010). *Official Journal of the European Union*, doi: C 83

Cini, M. (2005). *European Union Politics*. Oxford: Oxford University Press.

Cohen, B. J. (2010). *Monetary Unions*. Retrieved on March 3, 2012 from http://EH.net.

European Council. (2011). *Statement by the euro area heads of the state or government*. Retrieved from http://www.delmne.ec.europa.eu/code/navigate.php?Id=2006

European Council. (2012). *Treaty on Stability, Coordination and Governance in the Economy and Monetary Union*. Retrieved from http://europeancouncil.europa.eu/media/639235/st00tscg26_en12.pdf

Anonymous. (2012). French budget deficit falls to 90.8 bn euros: Official data. *The Economic Times Online.* Retrieved from http://economictimes.indiatimes.com/news/international-business/french-budget-deficit-falls-to-90-8-bn-euros-official-data/articleshow/11806368.cms

Anonymous. (2012). German Budget Deficit Plunges to 1 Percent of GDP. *Spiegel International Online.* Retrieved from http://www.spiegel.de/international/business/0,1518,817363,00.html

Greece. (2012). *CIA Online.* Retrieved from https://www.cia.gov/library/publications/the-world-factbook/geos/gr.html

Hanno, B. & Aloys, I. (2012). The trilemma of a monetary union: Another impossible trinity. *Intereconomics*, *47*(1), 39-43.

Ministry of Finance, (2009). Retrieved from http://mfin.hr/en

Moussis, N. (2006). *Access to European Union*. European Study Service.

Numa, M. (2011). The Feasibility of a Monetary Union in MERCOSUR. *Michigan Journal of Business*, 4(2), 11-59.

Odenaren, J.V. (2005). *Uniting Europe*. Oxford: Rowman and Littlefield.

Peterson, J. & Shackleton, M. (2005). *The Institutions of the European Union*. Oxford: Oxford University Press.

Smith, D. & Hou, Y. (n.d.). Do state balanced budget requirements matter? Testing two explanatory frameworks. *Public choice*, 145(1-2), 57-79.

UK budget deficit. (2012). *Debt Bombshell Online.* Retrieved from http://www.debtbombshell.com/britains-budget-deficit.htm

US Federal Deficits in the 20th Century. (2012). *US Government Spending Online.* Retrieved from http://www.usgovernmentspending.com/federal_deficit_chart.html