Przegląd Europejski, ISSN: 1641-2478
vol. 2020, no. 3
doi: 10.31338/1641-2478pe.3.20.5

Eurozone ten years after the crisis. Structural weaknesses, implemented reforms and the future of the reform process

Marcin Wroński, *SGH Warsaw School of Economics (Poland)*
E-mail: marcin.wronski@doktorant.sgh.waw.pl
ORCID ID: 0000-0002-3146-601X

Abstract
The article discusses the structural weaknesses of the Economic and Monetary Union (EMU), key reforms introduced after the financial crisis and the most important proposals of further EMU reforms present in the public debate. Reforms introduced during the last decade should be deemed to have positive results, however the EMU reform process has not yet been finished. Its successful completion depends on an agreement between Germany and France, which is hindered by conflicting economic interests and by different views on economic policy. The main purpose of this article is to demonstrate how public policy makers attempt to respond to the structural weakness of the Economic and Monetary Union and to identify the key factors, which impede an agreement between France and Germany.
Keywords: Eurozone (euro area), Economic and Monetary Union (EMU), EMU reform, European Union, Eurozone crisis, financial crisis.

Strefa euro dziesięć lat po kryzysie – strukturalne słabości, wdrożone reformy, przyszłość procesu reform

Streszczenie
Artykuł zawiera omówienie słabości strukturalnych Unii Gospodarczej i Walutowej, kluczowych reform wprowadzonych po kryzysie finansowym oraz najważniejszych propozycji dalszych reform UGW obecnych w debacie publicznej. Wprowadzone w ciągu ostatniej dekady reformy należy ocenić pozytywnie, jednakże proces reformy UGW nie został jeszcze zakończony. Jego pomyślne zakończenie zależy od porozumienia między Niemcami a Francją, które utrudniane jest przez sprzeczność interesów ekonomicznych i różnice poglądów w dziedzinie polityki gospodarczej. Głównym celem niniejszego artykułu jest wskazanie, w jaki sposób twórcy polityk publicznych starają się odpowiedzieć na słabości strukturalne Unii Gospodarczej i Walutowej, oraz zidentyfikowanie kluczowych czynników utrudniających osiągnięcie porozumienia pomiędzy Francją a Niemcami.
Słowa kluczowe: strefa euro, Unia Gospodarcza i Walutowa (UGW), reforma UGW, Unia Europejska, kryzys strefy euro, kryzys finansowy.

The euro was introduced as an accounting currency on 1 January 1999. Coins and banknotes entered into circulation on 1 January 2002. Nowadays the common currency is legal tender in 19 EU member countries inhabited by 340 million people. Sixty other countries and territories inhabited by 175 million people are using euro as their currency or have pegged their currency to the euro. Euro is the second most commonly used currency in the world, responsible for 31.4% of the turnover at the FX currency market (Bank of International Settlements 2016) and 20.15% of currency reserves of central banks (International Monetary Fund 2018). Despite this success the Economic and Monetary Union is still subject to reforms intended to increase its stability, therefore enabling the improvement of quality of life of the inhabitants of its Member States.

The aim of the article is to evaluate reforms of the economic governance in the Economy and Monetary Union (hereinafter: EMU, Eurozone, euro area) implemented after the beginning of financial crisis and to discuss proposals of further reforms as well as probability of their execution. The author is going to verify in this article the following hypotheses:

H1: Reforms implemented in the Economy and Monetary Union after the beginning of the financial crisis partially reduced structural weaknesses of the EMU.

H2: Despite the partial success of the implemented reforms not all structural problems of the EMU have been solved.

H3: Election of the president Macron intensified the debate on further reforms of the Economic and Monetary Union.

The probability of the success of Macron proposal is limited because of the differences in philosophies of economic policymaking dominating in two most important economies of the European Union – France and Germany.

To verify research hypotheses stated above, economic theory and the review of existing scholar literature are used. The following research questions follow the formulated hypotheses:

- Have reforms implemented after the financial crisis reduced structural weakness of the Economic and Monetary Union?
- What are the most important problems of the economic governance in the EMU still awaiting for the solution?
- What are the most important proposals of further reforms? Is their implementation feasible?
- Do different structure of French and German economies as well as important differences in dominating philosophies of economic policymaking in France and Germany limit the probability of success of proposals of further reforms?

The global financial crisis has demonstrated some of the weaknesses of the Economic and Monetary Union. Its structural problems include: lack of stabilisation measures, the vicious circle of co-dependency of public finances with the banking sector, lack of safe European assets, global trade imbalances and inadequate regulation of the financial market. Some also consider the lack of a clearly defined process for leaving the Economic and Monetary Union as a problem, but there are also fears that defining this process would create a self-fulfilling prophecy, therefore, lowering the stability of the Eurozone.

Since the beginning of the financial crisis an intense process of economic management reform both in the Eurozone and in the entire European Union is underway (Oręziak 2017). Support mechanisms for countries undergoing economic difficulties were created, a series of EU regulations increasing the level of economic policy coordination were passed and fiscal discipline was tightened (Miklaszewicz 2017). Along with implementing of the banking union project and with working on a capital union, significant advancements were made on regulating the financial sector (Sum 2017). The European Structural Reform Support Service was created; a pilot programme of financial support for countries implementing structural reforms was commenced, and the possibility of deducting the costs of reforms from the deficits for fiscal purposes was introduced.

The introduced reforms respond to a significant part of the Eurozone's structural weaknesses, however the Economic and Monetary Union reform process has still far to go. For the past decade not much was done to create stabilisation instruments and to reduce trade imbalances. The lack of European stabilisation instruments is a particularly significant problem nowadays, since the increase of Member State debts (a result of the financial crisis) significantly reduces their ability to conduct counter-cyclical economic policy.

The Eurozone reform debate has significantly heated up with the election of Emmanuel Macron as the president of France. The proposals for further reforms are also presented by the EU institutions, in particular by the European Commission. The economists and policy makers seem to be in agreement that the Eurozone requires further changes. It is clear that ambitious reforms of the Economic and Monetary Union may not be implemented without the approval of Germany and France, and due to conflicting short-term interests and different traditions of economic thought achieving a compromise between Paris and Berlin might be difficult.

Despite many difficulties there are also some factors, which should facilitate reaching an agreement. No parliamentary elections are coming soon in the largest EU countries, which (as demonstrated by recent Germa n experiences) could have an effective chilling effect on the discussion of reforms. Even though the European Union has not yet overcome all the negative consequences of the economic crisis, the economic recovery also increases the chances for successful reforms. One factor, which facilitates further European integration may be the leaving of the European Union by the United Kingdom, which in the last years has been the most significant delayer of European integration.

The first section of the article discusses the construction of the Eurozone in the context of the theory of optimum currency areas (see more: Mundell 1961). The following section debates structural problems of the Eurozone. The third part of the article presents and evaluates reforms of economic governance of the EMU implemented after the financial crisis. The fourth section debates existing proposal of further reforms as well as probability of their implementation.

Eurozone in the context of the theory of optimum currency areas

The main benefit from the creation of the monetary union is the elimination of transaction costs and foreign exchange risk. Adopting a common currency increases the comparability of prices in the countries, which use it, what therefore translates into increased competition and more effective international trade. For a significant number of economies, which form the Economic and Monetary Union the adoption of euro also resulted in decreased inflation and interest rates, which has resulted in decreasing the cost of borrowing. Another advantage of Eurozone participation was the possibility of reducing foreign exchange reserves, and in case of small economies also much lower risk of speculative attacks.

The countries entering the Eurozone have decided to relinquish the possibility of conducting independent monetary policy, which means that in case of an economic crisis their only response may be to use fiscal policy tools. As long as economic cycles in Member State economies demonstrate a high level of correlation, relinquishing autonomic monetary policy is not a significant sacrifice. In a situation of asymmetric economic shocks, interest rate levels may prove too high from the point of view of countries undergoing economic difficulties, and yet too low for economies in the phase of economic recovery.

Entering a currency union also forces membership countries to issue debt in a currency they have no influence over. The issuance of debt in a common currency may have both positive and negative consequences for the member countries. On the one hand a country, which participates in a currency union is not able to reduce its debt by inflation or by changing the currency exchange rate, that is, by transferring the costs of public debt reduction onto the private sector. On the other hand, stripping a country of this ability decreases the risk related to the purchase of government bonds, which translates to lower interest on the bonds and a better budget situation of the country in question.

Economists have been developing the theory of optimum currency areas since the sixties, in order to establish conditions, under which the adoption of a common currency by a group of countries is an optimum economic decision (Mundell 1961). Factors in favour of a currency union include: high synchronisation of economic cycles, high mobility of capital and labour, high elasticity of prices and wages and high level of trade integration. High synchronisation of economic cycles decreases the risk of occurrence of asymmetric demand or supply shocks in the countries participating in the currency union. High mobility of capital and labour, and also high elasticity of prices and wages decrease the costs of adaptation under the conditions of a crisis. The larger the trade flows between countries participating in a monetary union, the larger are the advantages stemming from the elimination of transaction costs and from the elimination of foreign exchange risk.

The operation of a monetary union is also facilitated by political integration, which enables the settlement of disputes between Member States in situations where a different economic situation requires a different (or even opposite) monetary policy. Under conditions of high political integration, the countries undergoing a crisis may be supported by countries undergoing an economic expansion, and by the redistribution of profits resulting from the operation of a monetary union, which may vary in size in various member countries.

Is the Eurozone an optimum currency area? The answer to this question causes a significant controversy among scientists. Most of them agree that the conditions of synchronisation of economic cycles, mobility of capital and high level of trade integration have been met, whereas the criteria of mobility of labour and elasticity of prices and wages raise significant doubts (de Grauwe 2016: p. 70–97; Jastrzębska et al. 2016: p. 129–157). When considering the economic aspects of a common currency, it should be kept in mind that it is not only an economic project, but also a political initiative, which is a part of the European integration process. Euro is not only a currency, but also a symbol of European identity. When discussing whether the Eurozone is an optimum currency area, it should be kept in mind that it is not clear whether the United States, which have been using a common currency much longer than the Economic and Monetary Union member countries are an optimum currency area (Kouparitsas 2001).

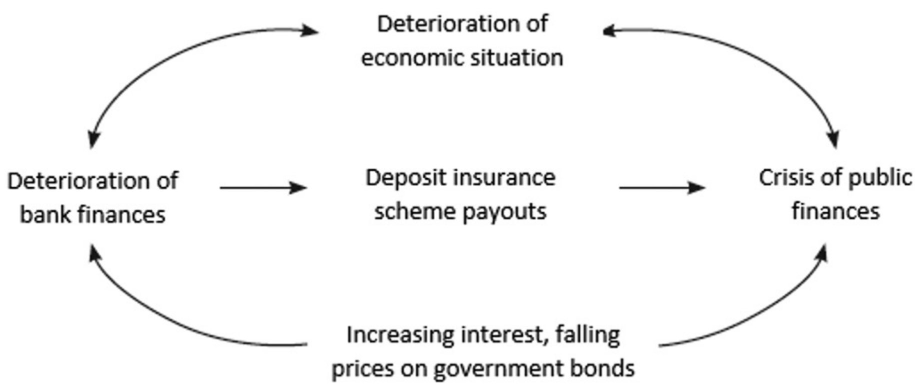
Structural weaknesses of the Eurozone

The main structural weakness of the Eurozone is the lack of adequate stabilisation instruments. This issue is especially important due to the high debt levels of some Member States. The increase in public debt occurred after the financial crisis means that when the next crisis occurs, most of the member countries will have a much smaller fiscal space at their disposal, significantly reducing the possibility of conducting countercyclical economic policy. This problem is of central importance due to the high level of economic interconnectedness of the Member States, which means that a crisis that starts in one member country becomes rapidly felt over the entire Eurozone.

Lack of stabilisation instruments is inherently connected with the issue of the so-called "fiscal union". The Eurozone does not have a separate budget that could be used for the stabilisation of economic cycles and the possible redistribution of surpluses resulting from the operation of a common currency. The budget of the European Union is only approximately 1% of its GDP, and additionally it must be balanced each year, which precludes the possibility of running deficits and compensating for them with surpluses in subsequent years, therefore, significantly restricting the possibility of conducting countercyclical economic policy (Nowak-Far 2009: p. 81–82). It should be also kept in mind that not all European Union Member States belong to the European and Monetary Union, which additionally restricts the possibility of using the EU budget to stabilise the economy of the Eurozone and to counteract its structural weaknesses.

The stability of the Eurozone is also threatened by the vicious circle of co-dependency of public finances with the banking sector (sometimes termed as "diabolic loop" or "sovereign-bank nexus"). The government bonds of the nation, where the bank in question operates usually form a significant part of its assets. When a Member State is in a crisis, the interest on its bond increases, which means that their price decreases. The falling asset value threatens the solvency of the bank and in critical situations (e.g. a bank run) may entail the need to pay out deposits to depositors, under the national deposit guarantee scheme. Since the deposit guarantee scheme is a part of public finances, the need to pay out compensations results in a further deterioration of the financial situation of the country in question. The high level of financial sector integration in the Eurozone significantly increases the significance of a negative feedback between a financial crisis and a bank crisis.

Figure 1. Vicious circle of co-dependency of public finances with the banking sector



Source: own work (Wroński 2018: p. 6).

A significant problem, which decreases the financial stability of the Eurozone, is the lack of common safe assets for Member States, which could provide a similar role to Treasury bills in the United States. Among the Eurozone countries only the government bonds of the Netherlands, Luxembourg and Germany have the highest rating, and 83% of all bonds with AAA rating are German bonds (Fuest 2017). The lack of European safe assets means that during financial crises capital flees from the countries of the periphery to the countries of the EU core. This results in further degradation of the situation in countries undergoing economic difficulties, and for the safe haven countries this means a lowering of interest rates, which translates to benefits for their budgets, but at the same time meaning a lower return on capital for their citizens. The creation of European safe assets would significantly restrict the capital flight from countries undergoing economic difficulties, which would facilitate the recovery of individual economies and would increase the stability of the Eurozone.

The introduction of euro has increased international trade imbalances between the countries using the common currency and has made them more permanent (Berger, Nitsch 2010). Were the national currencies still in use, the exchange rates of the core countries would be probably higher than the euro rate, and the exchange rates of the southern countries would be lower, which would decrease the trade surpluses of the core countries and decrease the trade deficits of the southern countries. Some economists also claim that flexible exchange rates facilitate the removal of trade imbalances by faster changes of relative prices (Friedman 1953: p. 196–201). Whether this argument is adequate is still debated, however (Chinn, Wei 2008).

Among the structural problems of the common currency the lack of a clearly defined process for leaving the Eurozone by a member country is also specified (Fahrholz, Wójcik 2013). Whether the EU law even allows such a possibility is disputable, however in accordance with the dominating opinion both unilateral withdrawal from the zone by a member country and an expulsion of one of the member countries are not possible (Athanassiou 2009). The advocates for defining of principles for the withdrawal from the Eurozone by a member country indicate that it would reduce free-riding behaviour and moral hazard by increasing both internal and external macroeconomic discipline. The adversaries claim that defining the principles for abandoning the use of a common currency would result in a significant increase of uncertainty, thus becoming a self-fulfilling prophecy.

At the onset of the financial crisis the issue of financial sector regulations was also an important problem. Allowing banks with their office in one of the member countries to operate in the entire European Union has created the risk of regulatory arbitrage. This decision has also resulted in the increase of bank assets, which meant that in case of countries of residence with relatively small economies the possibility of supporting liquidity or solvency of banks operating within the entire EU has been jeopardised. The increasing importance of international activity of the banks meant that it became controversial, which of the countries should bear the costs of supporting them in a crisis situation. Of all the problems listed herein it was the issue of banking regulations, in which the greatest progress was achieved in the last decade, even though there is still much to be done in this matter.

The issue of financial market regulations is key issue, in line with the trilemma of financial stability, which specifies that it is not possible to achieve at the same time three goals: (1) a stable financial system, (2) an integrated financial system, and (3) financial market regulation at the national level. Over a long period only two of these three goals may be achieved simultaneously, excluding one of them. Moving the financial market regulation to the European level is one of the possible solutions to the trilemma (Schoenmaker 2011).

Eurozone reform after the financial crisis

The financial crisis has revealed many weak points of the Eurozone architecture. It became obvious that it lacks sufficient stabilisation instruments, and the financial markets integration is too high to enable their regulation at the national level. Since the financial crisis commenced a series of actions was undertaken to increase the stability of the Eurozone (Oręziak 2017).

In the year 2010 the Council of the European Union has created the European Financial Stabilisation Facility and the European Financial Stabilisation Mechanism in order to increase the financial stability of the Eurozone and to provide financial support to Eurozone countries facing particular financial difficulties. They were authorised to issue debt instruments in order to obtain funds necessary to provide loans to Eurozone countries in financial troubles and to intervene on primary (in exceptional situations) and secondary debt markets. In 2011 both temporary mechanisms were replaced with a permanent financial aid mechanism for the zone countries – the European Stability Mechanism. The ESM has provided financial support to Cyprus, Portugal, Ireland, Spain and Greece. The financial support programme provided by the ESM to the last of the listed countries has ended in August of 2018.

Although the ESM is useful in crisis situations, it does not have clear strategic objectives based on long-term view and a coherent framework of program monitoring. The ESM programs lack the ownership and transparency (European Stability Mechanism 2017, 2020). The ESM needs a broader preventive mandate for the financial stability in the euro area. Today the ESM early warning mandate only focuses on programme countries and is very limited. The ESM is a fire-fighter and acts, where the crisis occurs. The Eurozone, however, needs not only a fire-fighter, but also preventive macroeconomic mechanisms increasing stability. The ESM helps solve the crisis, but not prevents them.

Since 2008 a series of actions was undertaken in order to increase the level of coordination of economic policy in the Eurozone and in the entire European Union. In 2009 the Eurogroup was institutionalised, acting previously as an informal body since 1997. In 2010 the European Semester procedure was implemented. A year later as a part of so-called “six-pack” legislation a package of regulations was adopted, strengthening the existing instruments for coordinating the budgetary policy of Member States. The “six-pack” has, inter alia, harmonised the rules for drafting of national budgets, required the member countries to implement fiscal rules and to conduct multi-year budgetary planning, countries with a high level of public debt were required to correct their structural balances and to reduce their public debt in relation to the GDP, and a system of financial sanctions for the violation of the Stability and Growth Pact principles was also created. In all European Union member countries with the exception of Poland independent fiscal councils were appointed, assessing the stability of public finances over a long period.

Under the European Semester procedure, the European Commission has been providing recommendations on economic policy to member countries since 2011, in particular on structural reforms, public finances and macroeconomic balance. Implementation of recommendations issued under the European Semester procedure by the Member States is not obligatory. In the period of 2013–2016 between 2% and 7% of the issued recommendations were fully implemented, and 40–50% of them were implemented partially. Only in 2012, when 78% of the issued recommendations were partially implemented a higher degree of implementation of the European Commission recommendations was achieved (Zoppè 2018). In 2011 the Fiscal Pact was signed. The pact increases fiscal discipline and introduces a debt brake rule. In 2013 as a part of the "two-pack" the process of cyclical monitoring of the Member State budget plans by the European Commission was introduced.

Both of the reforms described above are based on the German interpretation of the Eurozone crisis, which understands it mainly as the result of excessive debt of the member countries (Grosse 2016: p. 37). Increasing fiscal discipline, and in particular establishing a minimum rate of public debt reduction, when it exceeds 60% of the given country's GDP raises concerns about the procyclical character of this regulation, therefore causing some controversies among economists. Since first editions of the European Semester, the European Commission came under critique for limited consideration of social issues, however as part of subsequent editions the social issues were gradually becoming more significant (Zeitlin, Vanhercke 2018).

In 2015 the European Structural Reform Support Service was created. The Service, which is a part of the European Commission provides technical support to Member States implementing structural reforms. Two years later a decision was made to launch a pilot support programme for Member States conducting structural reforms. The number of submitted projects has significantly exceeded the financing abilities.

The process of transferring of regulation and supervision of the banking sector to the European level is also proceeding. It is intended to increase the financial stability of the Eurozone and to reduce the possibility of regulatory arbitrage by banks operating within the Eurozone. All the member countries of the Eurozone belong to the banking union, and countries from outside the Eurozone may decide to enter the union. In addition to uniform regulations controlling the operation of the banks, the banking union includes a uniform supervisory mechanism and a uniform recovery and resolution mechanism. Finally, a European deposit guarantee scheme is also intended as a part of the banking union, enabling the interruption of the negative feedback loop between public finance crises and banking sector crises. The creation of a European deposit guarantee scheme, even though it's of key importance to interrupt the vicious circle of co-dependency of public finances with the banking sector is jeopardised by political difficulties. Countries with stable financial systems are afraid that the European deposit guarantee scheme will result in permanent fiscal transfers to the southern EU countries.

The introduced reforms are a relatively effective response to the structural weaknesses of the Economic and Monetary Union, however the reform process may not be yet deemed closed. The coordination of fiscal policies of Member States has been significantly strengthened, however the strategy of public debt reduction based on excessively indebted countries maintaining structural budget surpluses over a long period raises significant theoretical controversies and it's not clear whether it will prove to be effective. The European and Monetary Union still lack stabilisation instruments, and the issue of European safe assets remains at the stage of theoretical research. The European Commission under the excessive imbalance procedure has identified the issue of excessive German trade imbalances (European Commission 2018), however, no concepts of implementation-ready solutions for solving the issue of trade imbalances have been yet created. The issue of excessive trade surpluses raises significant theoretical and political controversies, and the adoption of systemic solutions, which would reduce them is not highly probable. The changes to financial sector regulations have increased its stability, however, the issue of a vicious circle of co-dependency of public finances with the banking sector still awaits its solution.

The proposal for further Eurozone reforms

French and German tandem in a blind alley

Germany and France combined are responsible for almost 50% of the Eurozone's GDP and over 35% of the European Union's GDP (Eurostat 2017). After Great Britain left the European Union the share of the both countries in the EU GDP will increase further. The key importance of the economies of the both countries means that further structural reforms of the Eurozone and of the economic management in the European Union require their agreement. There is an intense debate on the future of the Eurozone underway on both sides of the Rhine, however, reaching an agreement is hampered by differing short-term economic interests and a different culture of economic policy thought.

European integration occupies an important place in Emmanuel Macron's agenda. Already during his election campaign, the attitude towards the European Union was a key topic in the French public debate. In September of 2017 Emmanuel Macron has presented his vision of Europe during the speech at Sorbonne, the vision based on increased European integration and solidarity. He has emphasised that the European Union budget must correspond to its ambitions, otherwise their implementation will not be possible. As a potential source of funds, which could increase the EU budget, he has indicated ecological taxes, digital taxes, financial transactions tax or moving the Corporate Income Tax to the EU level. Since a higher budget also means a higher responsibility, he has proposed appointing a European minister of finances and increasing the competencies of the European Parliament concerning the EU finances. In his other speeches during the first months of his presidency Emmanuel Macron has supported the introduction of a European deposit guarantee scheme and the transformation of the European Stability Mechanism into a European Monetary Fund, in accordance with the proposal made by the European Commission. According to the French president, it will not be possible to achieve a true convergence of Member States' economies without supplementing the Economic and Monetary Union with solidarity mechanisms (Macron 2017).

The bold speech of the French president was unfavourably received on the western side of the Rhine. Over the twelve years of holding the chancellor's office Angela Merkel established herself as a specialist in combating crises and a defender of the status quo, rather than a visionary with ambitious proposals of the EU reform. Former German minister of finance, Wolfgang Schäuble, became one of the faces of the austerity policies due to his hard-line stance towards Greece. Even though, the lack of a clear positive reaction on part of Germany was substantially caused by the course of the elections cycle, it has raised accusations on both sides of the Rhine of the German chancellor becoming a delayer of the European integration. Most CDU politicians are critical towards the increasing of the scale of financial transfers within the EU due to the potential burdens it would place on Germany as the largest economy in the Union.

Why the two countries, which have been closely working together for decades, have so different visions of Eurozone and EU reforms? The differing short-term economic interests are clearly an important factor. Both Germany and France are in a group of countries, which are financing the European Union, however the German contribution – due to higher payments made to the EU and lower transfers received from the EU – is significantly higher than the French contribution. Germany is not only the largest economy of the EU, but is also in a group of countries with the best economic situation in the entire EU. Unemployment, deficit and public debt in Germany are significantly lower than in France. If the EU budget and the level of European solidarity would have to be increased, the Germany's contribution would definitively have to increase.

The differences in German and French approaches result not only from a divergence of interests, but also from a different culture of economic thought, resulting from a different economic structure and divergent intellectual traditions (Brunnermeier et al. 2016a). France is a unitary country with a high level of centralisation and strong interventionist traditions. Whereas Germany is a federal country, where ordoliberal thought dominates (emphasising the role of market mechanisms and clearly defined rules for state participation in the economy, with a critical approach to public debt) (Bokajło 2019: p. 89–91). German economy is built on a foundation of medium-sized family enterprises and of the middle class, whereas in France national champions are key economic entities. Even though German GDP is 40% higher than French GDP, the FT500 list of the 500 largest global companies includes 24 French companies and only 18 German companies (Financial Times 2015). Additionally, trade unions to the west of the Rhine are much more confrontational than in Germany.

Table 1. Economic situation of Germany and France

	Germany	**France**
Population [million]	82.67	66.9
GDP [2018]	3.344 trillion €	2.353 trillion €
GDP per capita [2018]	35,860 €	32,830 €
Public debt/GDP [2018]	60.9%	98,4%
Public sector balance/GDP [2017]	+1.9%	-2.5%
Unemployment rate	3.1%	8.5%
Inequalities [Gini index]	0.289	0.297

Source: own work, based on Eurostat data.

In France economists and politicians are mostly of an opinion that a response to an economic crisis should be highly flexible, whereas their German counterparts emphasise the importance of clear and precise rules establishing the manner of responding to an economic crisis. However, French flexibility has one clear exception – excluding the possibility of withdrawal from the Eurozone. In France the opinion that defining the conditions and process for leaving the Economic and Monetary Union could rapidly turn out to be a self-fulfilling prophecy is quite common. Whereas in Germany there is a widespread opinion that the southern countries should implement large scale structural reform programmes under the threat of expulsion from the Eurozone. To the west of the Rhine the notion of introducing Eurobonds (for which Member States would be jointly responsible) and the concept of European solidarity play a significant role, whereas in Germany anxiety that the sharing of risk would lead to free-riding behaviour and irresponsible budgetary policy of Member States dominate. During economic crises French economists assign key importance to liquidity risk, whereas German politicians and economists consider the default risk to be a key problem then. To the west of the Rhine the increase of aggregated demand is considered to be the best answer to the crisis, whereas German economists emphasise the role of supply tools: savings increases and structural reforms. According to Paris the structural reforms should be conducted during economic recovery, when it's easier to bear their costs, whereas according to Berlin the mobilisation of political support for reforms is much more probable during crises. Differences in the prevailing economic school of thought on both sides of the Rhine hinder achieving an agreement on the future of the Eurozone, since not only proposed reforms, but even the diagnoses are different.

Table 2. Differences in economic thought

Germany	France
Ordoliberalism	Economic interventionism
Clear rules	Flexibility
Supply reaction	Demand reaction
Structural reforms during crises	Structural reforms during economic recovery
Emphasis on solvency	Emphasis on liquidity
Fear of moral hazard	European solidarity

Source: own work based on Brunnermeier et al. (2016a).

Proposals of European institutions

The EU institutions (European Commission in particular) are also active participants in the debate on the Eurozone reform. In June 2015 the Five Presidents' Report *Completing Europe's Economic and Monetary Union* was published (Juncker et al. 2015). The Presidents of the European Commission, the Council of the European Union, the Eurogroup, the European Central Bank and European Parliament clearly declared for the further development of the single market and for the increased coordination of the Member States' economic policies. They have opted for the finishing of the banking union by establishing a European Deposit Insurance Scheme in order to increase the financial stability of the Eurozone. The presidents of the EU institutions have also opted for the strengthening of European business cycle stabilizers and for the increase of the funds available to the European Union.

In the Five Presidents' Report (Juncker et al. 2015) and in accompanying documents the principles, which should be met by the stabilisation mechanism, were specified. It should minimise the moral hazard and not lead to the creation of permanent monetary transfers. Their use should be conditional on meeting clear criteria and on uninterrupted implementation of responsible fiscal policy. It should be created within the EU legal framework and be open and transparent for all the Member States. It may not duplicate the tasks of the European Stability Mechanism related to crisis management. In 2016 the Economic and Financial Affairs Council during its session in Bratislava has discussed the possible forms of the stabilisation mechanism, which included: European unemployment insurance system (which would supplement the national systems), connecting transfers with the phase of the business cycle, and a common investment fund. In each of the discussed forms the stabilisation mechanisms would be based on the accumulation of Member States' contributions during economic prosperity, and the payments would be activated after economic indicators would reach specified values.

In May 2017, the European Commission published the *Reflection Paper on the deepening of the Economic and Monetary Union* (European Commission 2017), elaborating on the previous Five Presidents' Report. The European Commission has supported its opinion (previously expressed in the public debate) that the existence of European safe assets is necessary for the further development of the Eurozone. It has also announced an analysis of various options for the creation of such financial instruments. Moreover, the EC has supported the idea of transformation of the European Stability Mechanism into a European Monetary Fund in order to further institutionalise it and to increase democratic accountability. The demand for strengthening the coordination of economic policies within the EU was supplemented by a declaration of loosening the overly strict fiscal criteria, should the coordinating mechanisms be strengthened.

Eurobonds – theoretical foundations, political problems

The debt crisis and the problems related to the lack of common Eurozone safe assets have resulted in an active debate on the possibility of the introduction of Eurobonds (Sikora 2017: p. 62–65). Over the last years such proposals were quite varied. There was a proposal of creating of bonds issued by the European Union, for which all the EU countries would be jointly responsible (European Commission 2011). There were also proposals of mutualising a part of the Member States' debt, for example, up to the 60% of GDP amount allowed by the Maastricht Treaty (Delpla, von Weizsäcker 2010; Varoufakis et al. 2015: p. 33).

The proposal of issuance of common debt, and even more, of mutualisation of some of the already existing public debt have caused obvious controversies. Its opponents point out that it leads to an enormous moral hazard, which will cause the Member States to implement irresponsible budgetary policies. This proposal also raises significant political doubts, in particular in the core European Union countries, for which their implementation would constitute a fiscal burden. The idea of the issuance of Eurobonds or mutualisation of some debt are certainly an interesting theoretical problem, but the chances of implementing them in reality are close to zero.

The European Safety Bonds are an instrument, which could finance European assets as safe and which simultaneously have a bigger chance of being implemented. They could be created by packaging bonds of different EU countries, and performing this process in an optimised manner could allow them to obtain a rating at least equal to German bonds (Brunnermeier et al. 2016b). The possibility of creating European Safety Bonds is a subject of active research by economists related to the European Systemic Risk Board (van Riet 2017; ESRB High-Level Task Force on Safe Assets 2018). The creation of European Safety Bonds would result in preventing capital flight from countries undergoing economic difficulties and interrupting the vicious circle of co-dependency of public finances with the banking sector.

In the nearest future the introduction of European Safety Bonds is not possible. They have not yet been developed to a degree that is sufficient for their issuance, and their complicated structure means that the project is very difficult to present to the public in a comprehensive manner. Moreover – after the experiences of the financial crisis – the creation of safe assets with financial engineering tools may raise some public concerns.

Conclusions

The financial crisis has demonstrated many structural weaknesses of the Eurozone, previously identified only by a small group of experts. In the decade since the outbreak of the financial crisis significant changes have been made to economic management in the Economic and Monetary Union and in the entire European Union. The introduced reforms respond to some of the structural problems of the EMU, however the post-crisis monetary union reform process may not be considered finished. Much remains to be done, and the reforms awaiting implementation are at least as controversial (if not more) as the ones that have been already implemented.

Any further reforms require the agreement of both Germany and France, due to their key economic and political importance. President Macron has been presenting far reaching proposals for changes since the first days of his term in office, however the reaction of the German side has not been entirely optimistic. Reaching an agreement has been hindered by differing short-term economic interests and significant differences in the culture of economic policy thought. It should be also noted that European institutions, and in particular the European Commission are actively participating in the debate on the future of Economic and Monetary Union reforms.

Marcin Wroński – MSc, graduate of the Warsaw School of Economics (Bachelor's degree) and the Free University of Berlin (Master's degree). PhD student at the Collegium of World Economy of the SGH Warsaw School of Economics. The author's scientific interests focus on the issue of socio-economic inequalities and the future of the welfare state, also at the European level.

Marcin Wroński – magister, absolwent Szkoły Głównej Handlowej (studia licencjackie) oraz Wolnego Uniwersytetu Berlina (studia magisterskie). Doktorant w Kolegium Gospodarki Światowej w Szkole Głównej Handlowej. Zainteresowania naukowe autora koncentrują się na zagadnieniu nierówności społeczno-ekonomicznych oraz przyszłości państwa dobrobytu, także na poziomie europejskim.

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