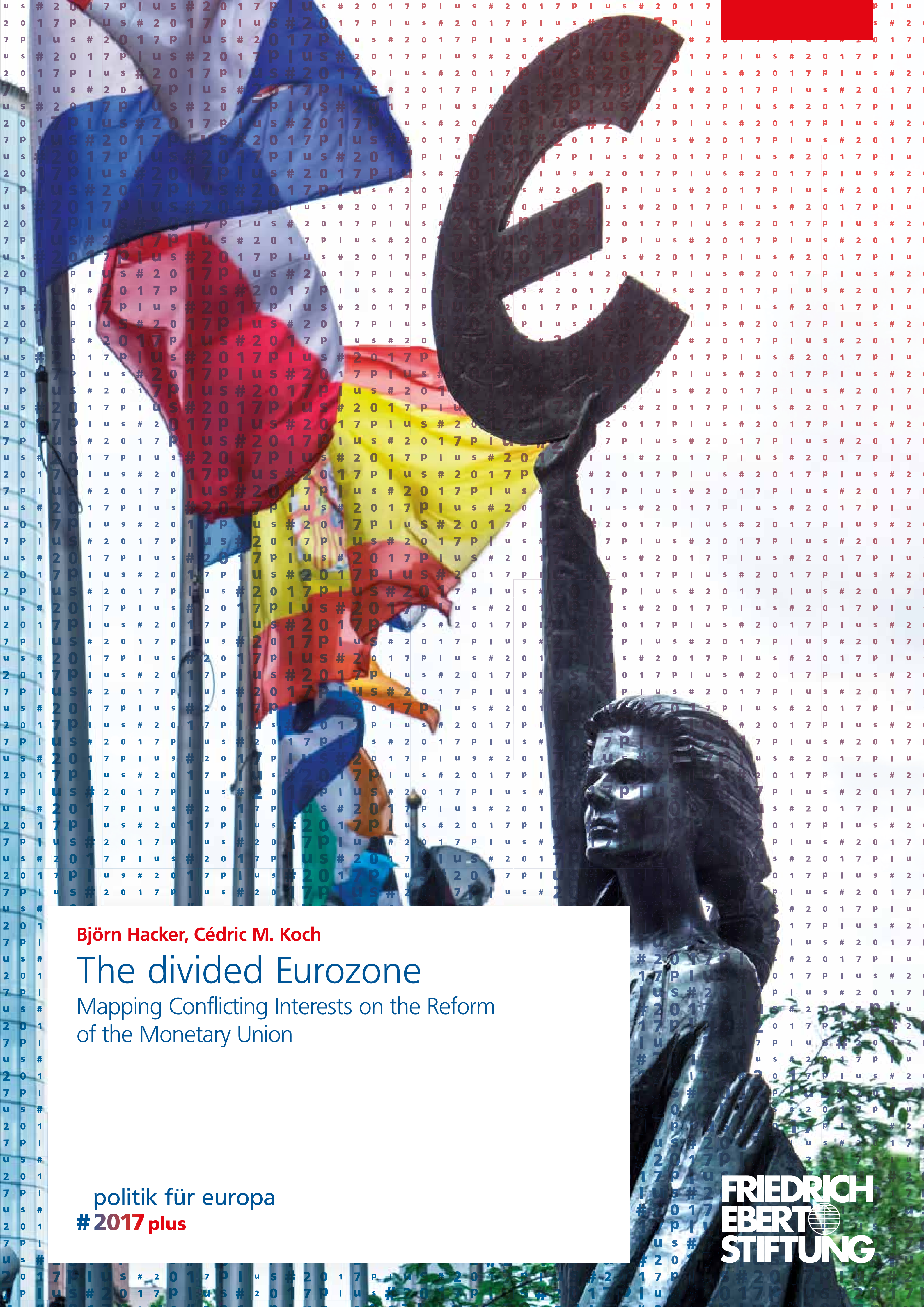


Björn Hacker, Cédric M. Koch

The divided Eurozone

Mapping Conflicting Interests on the Reform of the Monetary Union

politik für europa
#2017plus

FRIEDRICH
EBERT
STIFTUNG

politik für europa
#2017 plus

A PROJECT OF THE
FRIEDRICH-EBERT-STIFTUNG
2015 – 2017

Europe needs social democracy!

Why do we really want Europe? Can we demonstrate to European citizens the opportunities offered by social politics and a strong social democracy in Europe? This is the aim of the new Friedrich-Ebert-Stiftung project "Politics for Europe". It shows that European integration can be done in a democratic, economic and socially balanced way and with a reliable foreign policy.

The following issues will be particularly important:
– Democratic Europe
– Economic and social policy in Europe
– Foreign and security policy in Europe

The FES will devote itself to these issues in publications and events throughout 2015–2017: we start from citizens' concerns, identify new positions with decision-makers and lay out alternative policy approaches. We want a debate with you about "Politics for Europe"!

Further information on the project can be found here:
www.fes.de/de/politik-fuer-europa-2017plus

Friedrich-Ebert-Stiftung

The Friedrich-Ebert-Stiftung (FES) is the oldest political foundation in Germany with a rich tradition dating back to its foundation in 1925. Today, it remains loyal to the legacy of its namesake and campaigns for the core ideas and values of social democracy: freedom, justice and solidarity. It has a close connection to social democracy and free trade unions.

FES promotes the advancement of social democracy, in particular by:
– Political educational work to strengthen civil society
– Think tanks
– International cooperation with our international network of offices in more than 100 countries
– Support for talented young people
– Maintaining the collective memory of social democracy with archives, libraries and more.

About the authors

Dr. Björn Hacker is Professor of Economic Policy at the Hochschule für Technik und Wirtschaft (HTW) Berlin.
Cédric M. Koch is a research assistant in the Faculty of Economics and Law at the Hochschule für Technik und Wirtschaft (HTW) Berlin.

Person responsible in the FES for this publication

Dr. Uwe Optenhoegel, Director EU-Office Friedrich-Ebert-Stiftung Brussels

Friedrich-Ebert-Stiftung Brussels*

* This study was first published by the German Macroeconomic Policy Institute (IMK) within the Hans Böckler Foundation in November 2016.

Björn Hacker, Cédric M. Koch

The divided Eurozone

Mapping Conflicting Interests on the Reform of the Monetary Union

ABSTRACT

The euro crisis showed how incomplete and vulnerable the architecture of the Monetary Union is. Institutional reforms are slow or stalling due to divergent development perspectives for the Eurozone. This study analyses the conflicting interests among member states involved in the recent reform process. Based on economic theory, a disagreement can be identified between a minority around Finland and Germany, which advocate a "stability union", and a majority around Italy and France striving for a "fiscal union". But a far-reaching fiscal and political integration of the Eurozone cannot be achieved against the defenders of the status quo, as the "fiscal union" representatives lack coherence and unity and are struggling with economic problems. The intergovernmental preparation process for the Five Presidents' Report of 2015, which is examined here, reveals a deeply divided Europe and a European Commission desperately seeking consensus. As the recent Commission White Paper on the Future of Europe aimed to restart the reform debate on the Eurozone, the conflicts identified here are likely to be central to reform negotiations and outcomes.

SUMMARY

This study investigates the conflicting interests and power struggles among the EU member states and the role of the European institutions in the debates over reforming the Eurozone, following seven years of crisis.

Efforts to institute fundamental reforms of the Eurozone in response to its crisis have been under way since 2011 and have already led to individual institutional changes, such as the European Banking Union. But member states have failed to achieve consensus over further-reaching reforms, such that the proposals under discussion encompass a wide range of different objectives and scales. After the failure of the first reform initiative in 2012, the reform process was to be relaunched from early 2015 onwards through the Five Presidents' Report based on contributions from all the EU member states. Eventually the European Commission, which leads the process, published a White Paper on the Future of Europe in March 2017 and announced the publication of a Reflection Paper on deepening Monetary Union for May 2017, which is to be based on the Five Presidents' Report.

The disagreements over the reforms needed for the Eurozone are rooted in fundamentally different economic paradigms, which already shaped the founding phase of today's Monetary Union. One camp argues for the vision of the Monetary Union as a stability union, based on principles of internal and external price stability and prioritising rule-based self-regulation of the forces of the free market in order to minimise political risks. The opposing camp pursues the vision of the Monetary Union as a fiscal union, based on the conviction that the inevitability of market failure means that transnational economic governance must address more than mere price stability. The two visions represent diametrically opposed conceptions of a complete and functioning Monetary Union and consequently diverge widely in their interpretations of the causes of the crisis and the necessary reform steps.

The stability union/fiscal union divide is also reflected in the process analysed here, the creation of the Five Presidents' Report. While the Commission's document initiating the new reform process remains deliberately vague on the two positions, the member states' contributions subsequently communicated to Brussels can be classified on the basis of their demands into three camps in relation to the two diverging reform perspectives:

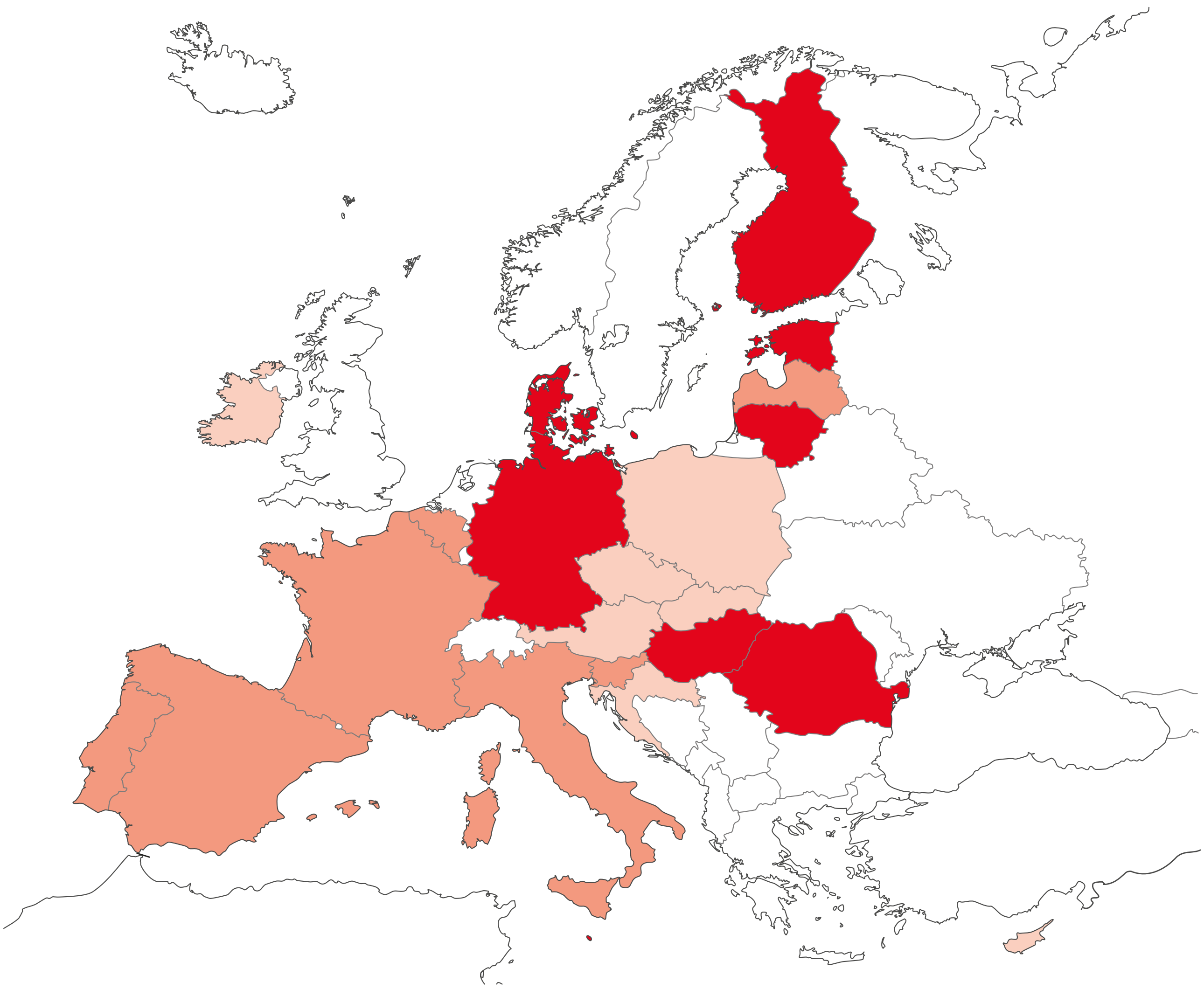
- Proponents of a stability union (Finland, Estonia, Lithuania, Germany, Malta, the Netherlands, Denmark, Romania, Hungary) reject both expansion of economic governance and deeper fiscal integration.
- Proponents of a fiscal union (Italy, Spain, Portugal, Belgium, Luxembourg, Slovenia, Latvia, France) argue for an expansion of both economic governance and fiscal integration.
- Proponents of a fiscal union with restrictions (Cyprus, Slovakia, Croatia, Poland, Ireland, Austria, Czech Republic) call in principle for development of the Monetary Union, but favour movement on only one of the two fronts: either more economic governance or steps towards fiscal integration.

The composition of the three camps reveals the proponents of a fiscal union, led by Italy, to be the largest group in terms of both population and GDP, holding a narrow majority within the Eurozone even without including the supporters of a restricted fiscal union. Proponents of a stability union – led by Finland – represent a minority position, being the smaller group under both criteria. The camps also tend to reflect the different economic contexts of the member states, with states with higher unemployment dominating the fiscal union group while states with low levels of debt make up the stability union camp.

The proponents of a stability union are considerably more consistent in their demands than the fiscal union group, which exhibits great variation in the details. This is partly a function of the clearer position of the stability camp, which wants to strengthen existing instruments but rejects steps going beyond the status quo of the existing Eurozone architecture. The supporters of a fiscal union, on the other hand, are calling for far-reaching reforms in a range of different areas, but share only a small common denominator. As a result of the diversity within the fiscal union camp (in contrast to the unity of the stability union group) and the equivocal stances of the European Parliament and the Commission, the minority position is most strongly reflected in the final Five Presidents' Report.

This study shows how the euro crisis has reopened a fundamental conflict over the right mix between rule-based free market and policy intervention. At its heart is the disagreement between member states over reforming the Eurozone towards a stability union or a fiscal union. A determined and economically relatively successful group led by Finland and Germany wants to permit only tinkering with the status quo of the Monetary Union, while a disunited group struggling with economic difficulties, led by Italy and France, is calling for far-reaching fiscal and political integration. In the absence of a decision between the two perspectives, the reform debate drags on and creates unsustainable compromises, as in the case of the Banking Union. Alongside other important national elections and leadership changes in Italy and the Netherlands, as well in Germany later this year, the often vacillating position of France will be decisive. Presidential elections there take place only two months after the publication of the White Paper on the Future of Europe and around the time of the announced dissemination of the Commission Reflection Paper on deepening Monetary Union in May 2017 and will be crucial for the future balance of power in the "map of reform conflict" (see Figure 1).

Figure 1
Divided Europe. Identified reform camps on the future of the Eurozone, 2015



These states favour reform of the Eurozone...

- towards a stability union
- towards a fiscal union
- towards a fiscal union with restrictions

Note: Stability Union: FIN, EST, LIT, GER, MLT, NED, DEN, ROM, HUN. Fiscal Union: ITA, ESP, POR, BEL, LUX, SVN, LAT, FRA.
Fiscal Union with restrictions: CYP, SVK, CRO, POL, IRE, AUT, CZE. No data available for UK, SWE, GRE, BUL.

Source: authors, Mapchart.net.

1

INTRODUCTION: THE CONFLICT OVER THE FUTURE OF THE ECONOMIC AND MONETARY UNION

In the shadow of the challenges faced by the EU over migration, refugees, integration and Brexit, the dominant European issue of recent years has been rather ignored: the future of the Economic and Monetary Union (EMU). After seven years of permanent crisis, all-night summits and a permanent state of emergency culminating in the clashes over Greece's future in the Eurozone in July 2015, Europe's leaders in 2015 – at the Initiative of the European Commission – wanted to initiate the process leading to the next set of fundamental reforms of the Eurozone architecture. At the June summit of the European Council, the Commission presented the so-called Five Presidents' Report (Juncker 2015b), which is still awaiting discussion by the heads of states and governments.

READING OPTIONS:

- For a rapid overview of the analysis as a whole, we recommend reading Chapters 3.3 (p. 17), 4.3 (p. 24), 4.5 (p. 32), 5 (p. 36), and 6 (p. 40).
- For the positions of individual countries and power relations within the "map of reform conflict", we recommend reading Chapters 4 (p. 19) and 5 (p. 36).
- For the theoretical background to the conflicting reform interests and a summary of reform initiatives to date, we recommend reading Chapters 2 (p. 7) and 3 (p. 10).

The question of how the Eurozone needs to be modified cannot be postponed indefinitely, however, especially as there is already a concrete timetable for the next far-reaching initiatives to complete the EMU. In March 2017, Commission President Juncker presented a White Paper on the Future of Europe, including a roadmap for a Reflection Paper on the deepening of Monetary Union in May 2017, intended to re-start discussion on the future course ahead of the December 2017 European Council. Moreover a new round of acute euro crisis was only narrowly averted in the summer of 2016, through yet another agreement between Greece and its creditors. On 24 May 2016 the Eurogroup released another instalment from the third bailout package. At the same time, under pressure from the International Monetary Fund (IWF), debt relief is now being controversially debated between the country's creditors in the Eurozone and the IMF, with an easing of Greece's debt ratio of almost 180 percent of GDP under discussion for 2018 (Eurogroup 2016). But with Euro finance ministers insisting on strict austerity measures to achieve a primary surplus of 3.5 percent of GDP in the medium term, many observers expect only a brief lull (Neuerer 2016; Schieritz 2016). The potentially explosive consequences of half-hearted decisions on EMU reform became apparent in 2016, when the bail-in of investors at four troubled Italian regional banks – under the Single Resolution Mechanism (SRM), which came into force in January – caused bewilderment among investors and lenders and undermined the liquidity of Italy's third-largest bank, Monte dei Paschi di Siena, threatening its solvency and stirring discussion on a public bailout. The reason: to date there is neither agreement among the member states on the planned European deposit guarantee scheme nor a functioning fund to protect against defaults and finance wind-downs (Münchau 2016).

The question of the euro will thus inevitably continue to play a major role, and the Five Presidents' Report already indicates where the political battles will lie. This study traces the fundamental debate that has played out since 2015 in the background of European politics. It divides Europe politically: on the one side are proponents of a "stability union" based on rules and control of national policy-making, on the other the advocates of a "fiscal union" who believe further-reaching integration steps to be necessary.

The object of this study is to identify the conflicting interests between the relevant member states and institutional EU actors over the future shape of the Monetary Union. The classification of the contributions to the latest Eurozone reform process – of which this study represents the first thorough review – permits us to reconstruct the reform discourse. The resulting "map of reform conflict" yields insights into both the substantive differences and the majorities within the Union. The study also questions widely held assumptions about the positions of individual member states and their role in the negotiations. The "map of reform conflict" identifies the ideological and power-political possibilities and limits of a

Monetary Union emerging from years of crisis. It explains – aside from new political conflicts at the European level – the persistence of the crisis phenomena in the Eurozone and the slow nature of progress on developing and implementing an improved institutional architecture for the single currency.

In the following we supply first of all an overview of the historical origins of the debate over a fundamental reform of the EMU, from the outbreak of the euro crisis in 2010 through to the publication of the Commission's latest reform proposal (Chapter 2). Next, we trace the theoretical roots of today's division into the two camps, proponents of stability union and of fiscal union (Chapter 3). The resulting overview of instruments and institutions is used in a qualitative analysis of member states' contributions submitted to the Commission in the process of preparing the Five Presidents' Report, in order to create a classification of national preferences and to establish a ranking of the intensity of their demands (Chapter 4). The findings are contextualised with the concrete proposals of the published report and discussed with regards to the real power relations in the reform discussion within the EU, including a quantitative classification (Chapter 5). The study concludes with a summary and outlook (Chapter 6).

2

THE EMU REFORM DEBATE SINCE THE OUTBREAK OF THE EURO CRISIS

This section describes the first initiative to fundamentally reform the EMU in 2011/12 and outlines the process employed by the European Commission for preparing the Five Presidents' Report. This second attempt to achieve comprehensive reforms is also the context of member states' contributions in 2015. These are analysed in chapter 4 as the central focus of this study.

SUMMARY:

- Efforts to fundamentally reform the Eurozone in response to its crisis have been under way since 2011 and have already led to individual institutional changes, such as the European Banking Union.
- But there is no consensus among the member states over further-reaching reforms. So the reform proposals to date fluctuate widely between different objectives and dimensions.
- The Five Presidents' Report of early 2015 was designed to relaunch the reform process, with contributions from all EU member states. The next step was a Commission White Paper on the Future of Europe in March 2017 which also announced an upcoming Reflection Paper on deepening the Eurozone due in May 2017.

2.1 REFORM INITIATIVES 2011–2014

Along with the acute bailout packages – which have generally been created under great time pressure – and their various institutional accompaniments (European Stability Mechanism, Troika etc.), different plans, ideas and suggestions concerning the long-term institutional arrangements for the Monetary Union have been circulating within the EU (see Hacker 2013). In December 2012, the then-President of the European Council, Herman van Rompuy, published a report on developing "a deep and genuine Economic and Monetary Union" prepared together with the presidents of the Eurogroup, the European Commission and the European Central Bank (ECB) (the "Four Presidents'" or "Quadriga" report). In the same year independent proposals for reform timetables also came from the European Parliament ("Thyssen Report") and the Commission ("Blueprint"), and were discussed together with the Four Presidents' Report at the December 2012 summit.

Although the Four Presidents' Report called for relatively far-reaching integration steps and supplied a clear political timetable, the political response of the heads of state and government in the summit conclusions were reserved and largely restricted to declarations of intent. The only exception in this respect was the Banking Union, which has in the meantime been implemented (albeit incompletely in certain important respects). Otherwise the European Council emphasised above all the need for strict budgetary discipline. Additional fields of activity were also agreed, namely ex-ante coordination of national economic policies, direct "mutually agreed contracts" between each member state and the EU including a "solidarity mechanism" to create stronger incentives and controls in the implementation of national reform policies, as well as progress on the social dimension of the EMU (European Council 2012).

However, more notable than these (largely vague) plans were the aspects that are absent here, even though most of them were included in the various preparatory reports: there is no longer any talk of a medium-term fiscal union in the sense of joint debt management, a fiscal capacity or steps towards a political union with greater democratic powers at the supranational level. So by the end of 2012 there were already clear signs of a reinterpretation of these instruments and aspects according to the vision of a stability union, where the fiscal integration steps function only as incentives for implementing coordinated stability and competition policy (Hacker 2013). The member states failed to achieve a consensus over the newly identified fields of activity during the following months. Commission communications in 2013 on the Convergence and Competitiveness Instrument, on ex-ante-coordination of economic policies and on the social dimension of the EMU were stripped of all controversial aspects before publication and remained irrelevant. The joint Franco-German declaration of 30 May 2013, in which all reform proposals that have not yet been set in motion are postponed

Figure 2
The Five Presidents' Report in the context of Eurozone reform plans since 2012

Source: authors.

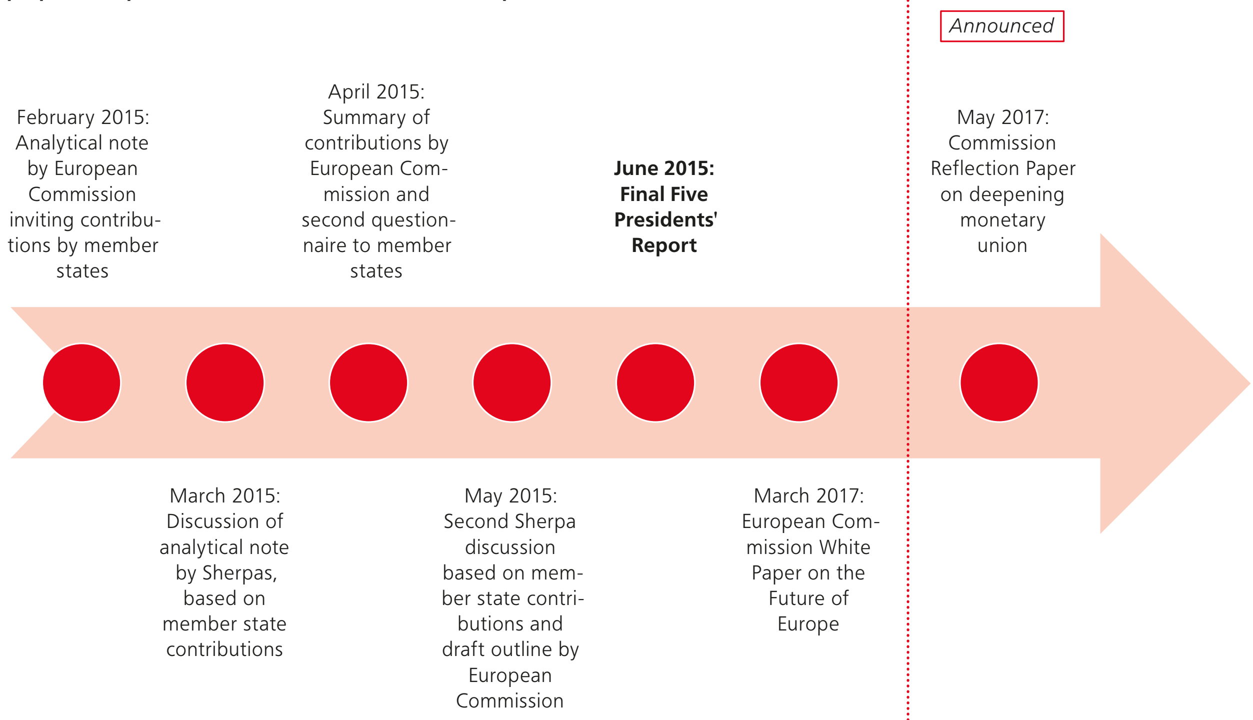
to the distant future in favour of moves to “establish a common assessment” of indicators and policy areas, is symptomatic (Bundesregierung 2013: 9). Even this did not occur and important election dates for the German Bundestag in autumn 2013 and the European Parliament in spring 2014 ensured – alongside the lack of unity among the member states – that further discussion of the reform plans was continually postponed.
In the period since early 2013 debate in the European context has been largely over the exact details of the Banking Union. Whereas most European states were interested in rapid implementation, the German government in particular dragged its feet over the establishment of the Single Supervisory Mechanism, the Single Resolution Mechanism and the implementation of a European deposit insurance (Speyer 2012). Beyond this, the debate over fiscal austerity escalated after the election of the left-wing government of Alexis Tsipras in Greece in January 2015, coming to an ignominious conclusion in July 2015 when controls on capital movements had to be imposed to prevent a collapse of the Greek financial sector and the Greek government ultimately ignored its own referendum result to reach an agreement with the creditor “institutions” (as the troika is now called) that essentially represents a continuation of previous policies (Legrain 2015).

The Five Presidents’ Report thus represents the first attempt since the new EU-Commission under President Jean-Claude Juncker took office in 2014 to revitalise the debate over the need for further reforms of the Monetary Union. But because the Report has to date been pushed down the political agenda of the European Council summits by the acute challenge of open disagreements between member states over migration and refugee policy, responses to terrorist attacks and Brexit, a profound discussion and evaluation by the heads of state and government has yet to occur. Nonetheless, the Five Presidents’ Report will represent the basis for discussions about the future shape of the Monetary Union. In tandem with the joint Franco-German proposals initially announced for the end of 2016 but not delivered to date, the Report represents the precursor for the Commission’s Reflection Paper on deepening the Eurozone due in May 2017, which was announced by Juncker in the White Paper on the Future of Europe in March 2017 (see Figure 2). In the following, the process of creating the report is described and the context of the Sherpa contributions explained.

2.2 THE PREPARATION PROCESS OF THE 2015 FIVE PRESIDENTS’ REPORT

To revive discussion about the future of the EMU, the Commission circulated an Analytical Note in February 2015 laying out an analysis of the crisis and formulating a first set of eleven questions to member states (see Chapter 4.1). Commission President Jean-Claude Juncker invited member states to launch a discussion process that “could” address these very fundamental questions (Juncker 2015a: 8), revolving around the economic governance of the Eurozone. The document employs a multi-level categorisation: First it addresses political governance capacities in the existing framework, asking how implementation could be improved. In a second step the document turns to the institutions and instruments required for sanctioning violations of the existing agreed governance framework. Thirdly, it asks whether

Figure 3
The preparation process for the 2015 Five Presidents' Report



Source: authors.

today's Eurozone is in fact now equipped to face the challenges observed in the euro crisis since 2010, before in a final step concretely posing the question of greater transfers of sovereignty, more risk-sharing and increased convergence.

Following a discussion about the first round of written contributions received from the EU capitals and the European Parliament between the member states' negotiators (Sherpas) and the Commission on 11 March 2015, a second document of 21 April 2015 supplied a summary of the responses to date and seven sets of more detailed questions (European Commission 2015a; 2015b). These address individual aspects from the member states' contributions and explore how particular demands could be implemented concretely. In response, fifteen member states and the European Parliament submitted second contributions to the Commission, whereby Germany and France prepared a joint response. In some cases, the member states' governments responded concretely to the questions posed to them in the second document, in others they expanded and enlarged on the views communicated in the first round. In many cases, the second-round contributions are more comprehensive than the initial responses to the Analytical Note. This suggests that the Commission has succeeded in heightening the member states' interest in feeding their national stances on the future of the EMU into the process.

So the Juncker Commission was very quickly able to revive a debate over the EMU that had fallen into abeyance in 2013 and 2014 (see Figure 2). At the same time, it succeeded in structuring the process: most of the member states answered the questions in order. However, certain governments only commented on particular aspects, while others delivered comprehensive disputations. The quality varies considerably, ranging between purely subjective assessments and semi-scientific focus.

In terms of substance, considering the process as a whole, a fundamental conflict becomes apparent. It runs throughout the debate and is also mentioned by the Commission in its documents. The Commission summarises the national contributions received thus far in a discussion paper of 21 April 2015: *"There is a general recognition of the significant progress made over the last few years to strengthen economic governance and the EMU architecture. Some contributions would consider this progress broadly sufficient and not see the need for significant further steps. On the other hand, other contributions consider that, given the experience so far, the minimum requirements for a stable EMU are still not in place"* (European Commission 2015a: 1). So the opinions of the member states span the range from consolidation of the existing governance framework and fine-tuning of the European Semester on the one side through to the proposal to establish new joint institutions and mechanisms on the other, as also reflected in the Draft Outline of 22 May 2015 for the final Five Presidents' Report (European Commission 2015c).

These fundamentally diverging perspectives can be explained in terms of the different visions of a stability union on the one hand and a fiscal union on the other. In the following, this analytical framework is fleshed out to subsequently serve as the basis for the analysis of the Sherpa contributions.

3

TWO CONCEPTS FOR THE FUTURE OF THE EUROZONE: STABILITY UNION VS. FISCAL UNION

After the turmoil and crises of recent years everyone agrees that the Eurozone needs to be reformed. But that is where the consensus ends and prescriptions for the Monetary Union diverge enormously. In fact, disagreement over the right architecture and governance for the Monetary Union is nothing new. The latest crisis re-ignited the heated debate that academics and politicians were already conducting in the run-up to the founding of the EMU. Its origins lie above all in the question of how a Monetary Union should be constructed.

SUMMARY:

- Disagreement over necessary reforms for the Eurozone is rooted in fundamentally different economic paradigms, which shaped the founding phase of today's Monetary Union.
- One camp argues for the Monetary Union to be a stability union based on principles of internal and external price stability and prioritising rule-based self-regulation of free-market forces to minimise political risks.
- The other camp argues for the Monetary Union to be a fiscal union based on their belief in the need for transnational economic governance to extend beyond the aspect of price stability, in order to address inevitable market failures.
- The two visions represent diametrically opposed conceptions of a complete and functioning Monetary Union and arrive at widely diverging interpretations of the origins of the crisis and the necessary reform steps.

When, following World War II, it became clear that Europe would be striving to grow together economically in order to overcome the shock and destruction of military confrontation, the desired degree of economic integration was an obvious question. Initially only selected strategic sectors like coal and steel were integrated, and a gradual timetable was pursued for mutualising other areas of national economies. Unlike certain other political proposals for creating a European Federation out of the résistance,[1] the question of currency relations within Europe was initially marginal, despite growing economic exchange. Although the six founding members of the European Coal and Steel Community (ECSC) and the European Economic Community (EEC) sought integrated trade during the 1950s and 1960s, hopes for monetary cooperation were placed in the global Bretton Woods system of fixed exchange rates. At the same time, the 1957 Treaties of Rome proposed the establishment of a "Monetary Committee with consultative status" comprising the European Commission and representatives of the member states, "[i]n order to promote the co-ordination of the policies of Member States in monetary matters to the full extent necessary for the functioning of the Common Market" (Article 105, EEC Treaty).

Monetary integration did not return to the agenda until 1968, following completion of the Customs Union between Germany, France, Italy and the Benelux states, which represented a decisive step towards the Common Market. At the summit in The Hague in December 1969, the heads of state and government of the six member states called for the preparation of a plan for the establishment of an economic and monetary union. However, the plan to introduce a single currency within ten years presented the next year by Luxembourg Prime Minister Pierre Werner was overtaken by the 1970s oil shock, the collapse of Bretton Woods and national concerns for sovereignty. One important milestone came in 1979 with the conversion of the European Monetary Cooperation Fund (EMCF; founded in 1973) into the European Monetary System (EMS) with a shared basket currency and coordinated central bank interventions to keep rates within agreed bands. The EMS lasted until the early 1990s, when it succumbed to diverging economic developments and correspondingly orientated central bank policies of the participating states following German reunification and speculative attacks.

1 For example in the Union of European Federalists's 1942 Draft Constitution of the United States of Europe, which declares currency and banking to be federal matters and calls for a new European currency (Europa-Union 1942 in: Lipgens (1986): 101).

After the various models of fixed exchange rates, floating rates, currency "snakes" and intervention-backed fluctuation bands all failed to satisfactorily resolve the problem of periodic currency turbulence, the option of adopting a single currency (and thus completely abolishing exchange rate risks) appeared with increasing gravity on the agenda. But could a single currency function? And if so, under what preconditions?

In the following we examine the theoretical foundations of the two central – and opposing – concepts for the Monetary Union, before spotlighting the central lines of disagreement in the present discussion in the context of the euro crisis and laying out the two visions: a stability union on one side and a fiscal union on the other.

3.1 THE EMU AS A STABILITY UNION

On one side of the political debate over the question of whether and how a Monetary Union in Europe could be successful, we have the advocates of a stability union.

The stability union idea has been especially predominant in Germany. Its roots in the emerging debate over a possible common currency lie in the overriding significance of economic stability (price and monetary stability) as the precondition for any successful currency. Against the historical backdrop of two periods of extreme inflation (most recently 1945–48), price stability attained great significance in post-war Germany. Accordingly, the Bundesbank was established as an institution independent of political influence, with the primary objective of fighting inflation. This, it was hoped, would prevent governments from opportunistically increasing the money supply – which had in the past had such disastrous effects and ultimately twice led to complete devaluation of the currency. Price stability, it was believed, would also ensure the stability of the value of the currency and thus function as a strong and reliable platform for export-driven German industry. This concern for monetary stability became the bedrock of German economic policy and formed the foundation of the economic school of ordoliberalism that remained dominant in Germany – with few exceptions – for most of the post-war era (Dyson and Featherstone 1999). The German Bundesbank in particular has fulfilled its mission extremely successfully, with the deutschmark standing for consistently low inflation. Indeed, it was the only European currency never to be devalued.

Deeply committed to the free market, this school of thought sees as the central task of a strong state an economic policy ensuring fair and stable conditions for maximally-efficient free-market competition (Stark 2015). This begins with the central public good of a currency that is stable both internally (inflation) and externally (exchange rate), but also applies to a strong legal and institutional framework enabling markets to function as efficiently as possible.[2] All other aspects of the economic order are secured through the disciplining efficiency of market mechanisms. In this model, the state is not an economic actor in the dirigiste or Keynesian tradition, but a source of risk – especially in fiscal policy – of political interventionism creating budget deficits, leading to inflation and devaluation and thus undermining its central function as provider of the public goods required for efficient market processes (Brüderle 2010).

Here there are major overlaps with the school of monetarism, which has dominated internationally at least since the 1980s. In the debate over the founding of a Monetary Union, its proponents also argued positions supporting a stability union (De Grauwe 2013: 157ff.; Young 2014). In the first place, as a response to the experience of stagflation in the 1970s, this economic discourse argued that central banks should restrict themselves as far as possible to the goal of fighting inflation and not explicitly pursue other policy objectives such as employment or economic growth. In this line of thought, achieving low inflation represents the most important contribution to macroeconomic and financial stability. Pursuing other goals is thought to lead to inflationary tendencies and is therefore rejected (Barro and Gordon 1983).

If the central bank, following this school of thought, concentrates on fighting inflation, there is no need for an expansive fiscal policy as a governance instrument either, because its stimulating effects would automatically be negated by the central bank – through rising interest rates – in pursuit of its inflation target. So in monetarism, like in ordoliberalism, economic policy is seen above all as a guarantor of stability in the sense of low inflation, and bears absolutely no wider responsibility for economic developments because these can only be influenced at the price of harmful inflation (Alesina and Barro 2002). This rests on a strongly supply-side perspective on the economy, in the sense of the Real Business Cycle Theory, which proposes that fluctuations in economic activity always have real causes. Because these lie on the supply side, recessions and unemployment potentially represent efficient adjustment processes rather than inadequacies of the market that need to be addressed through active policy intervention (Kydland and Prescott 1977).

From this perspective, growth and economic dynamism are achieved above all through productivity-expanding competition in the markets, and certainly not through expansive fiscal or monetary policy or the "artificial" and competition-distorting effects of currency devaluation – which makes domestic products cheaper in relative terms on world markets but in the longer run is always associated with harmful inflation. If growth fails to occur, the reasons are to be found – in macro-economic terms – in weaknesses on the supply side, such as inadequate flexibility of product and labour markets to allow necessary structural change to produce market efficiency or excessive wage, social or energy costs undermining international competitiveness.

It is also within this theoretical understanding that the currency policy reality of post-war Europe arose: Germany had finally succeeded in banishing the demons of inflation and devaluation, in a painful process driven by a disciplined Bundesbank and economic policy. But many other countries where the influence of political actors on the central banks was (at least periodically) considerably greater, subordinated economic stability to other shorter-term goals and accepted the price of higher inflation and regular devaluations. Olaf Sievert, long-serving member of the German Council of Eco-

2 Meaning effective property and insolvency laws, stability-promoting regulation, competition-promoting institutions such as a monopolies commission, and institutions promoting market entry, such as the German Kreditanstalt für Wiederaufbau (KfW).

nomic Experts, writing in the *Frankfurter Allgemeine Zeitung* on the occasion of the Maastricht Treaty of 1992, summarises this perspective well: *"The history of money is above all an eventful history of the abuse of the right to create money. Over the centuries, the attraction of state sovereignty over the monetary system has been defined by the acquisition and exploitation of undeserved possibilities and benefits by spending money one does not possess, but can create, by allowing the creation of income and wealth for which there is no real basis, which thus – if at all – can only be gained at the expense of others and – not least – by devaluing the debts one has promised to pay in good money. In short, through lies and deception in the guise of state sovereignty."* (translated from Sievert 1992, 14).

For a long time, therefore, a Monetary Union was inconceivable for many representatives of this school, because the culture of stability required for a successful currency did not exist in all the participating countries. But without a culture of stability individual countries would be tempted – and able – to conduct an excessively expansive fiscal policy in order to substitute the stimuli previously supplied by devaluations. And this would lead to higher inflation, loss of competitiveness and ultimately undermine the stability of the currency. This renewed loss of the hard-won economic stability that was regarded as the foundation of the German economic miracle of the post-war era was inconceivable and had to be prevented at any cost.

In this understanding, monetary integration is only possible as the "coronation" of a much broader political integration process, in which all members' national policies must meld into a "stability union" as the real structures of the economies converge. This affects aspects as far-reaching as the national wage and collective bargaining systems, the relative strength of different economic sectors, and financial relations between businesses, the financial markets and the public sector. In its pure form, the coronation theory is hard to reconcile with the perspective of a Monetary Union in the foreseeable future, given that the necessary convergence would demand incisive political interventions and harmonisations that would for example contradict an understanding of legitimate differences in types of capitalism (Hall and Soskice 2001) and democratic legitimacy (Scharpf 1997). At least a strict nominal convergence of the participating economies through stability-orientated economic policy was therefore demanded as an alternative minimum criterion that would make the single currency possible. The real and structural discrepancies, it was argued, are not an absolute reason to reject a monetary union as impossible, as long as all the states pursue the same economic policy, with the objective of internal and external price stability.

Over time other arguments accumulated, making a single currency more attractive and ultimately ensuring that the question was now "how" rather than "whether" a monetary union would come into being (Dyson and Featherstone 1999). The most important factors that turned the economic and political tables specifically in Germany were:

- the problem of imported inflation from neighbouring countries now increasingly closely interlinked with Germany through trade and investment;
- fear of the costs and responsibilities associated with functioning as an anchor currency, arising out of the experience of the Bretton Woods system (Helleiner 2005);
- the striving for European integration and reconciliation with France as the central goal of German post-war foreign policy (Dyson and Featherstone 1999);
- the ever-growing importance of monetary stability vis-à-vis European trade partners, generated by increasing economic integration (Rose and Van Wincorp 2001);
- the inherent conflict between economic policy goals of national monetary autonomy, monetary stability and liberalised capital markets (Padoa-Schioppa 1982).

In order to resolve the "problem" of a Monetary Union with partners that fail to commit properly to a culture of stability, the ordoliberal tradition required members' economic policies to be strictly tied to the required course (Stark 2015), meaning in the first place that nominal convergence with clearly defined economic stability criteria had to be achieved (Sievert 1992). This was reflected in the Maastricht criteria laid down before the introduction of the euro, under which all potential members had to achieve low inflation and interest rates, small exchange rate fluctuations, state budget deficits not exceeding 3 percent annually, and state debt capped at 60 percent of GDP. The vision of stability also implied that future monetary policy – including the Bundesbank's – would be isolated from policies (also) pursuing other goals, and would be mandated with the absolute priority of price stability. As the last necessary condition, finally, it had to be ensured that even after the introduction of the new currency no member state would be in a position to undermine the internal or external stability of the currency through excessively expansive fiscal policy (and in the worst case to endanger it existentially by risking insolvency). Logically therefore, the Treaty of Maastricht included a no-bailout clause, and the budgetary convergence criteria were expanded and formalised as firm fiscal rules with the possibility of sanctions in the Stability and Growth Pact. This was designed to ensure that no state could rely on the assistance of the other members to pursue a stability-threatening debt policy.

Going one step further, some observers even explicitly supported such a construction as a means of disciplining national fiscal and price policies: members of a Monetary Union with an inflation-fighting independent central bank would thus (in theory) be committed to a restrictive fiscal policy because otherwise in the long term rising inflation and state refinancing costs would make it impossible to maintain exchange rate parity implied by the common currency. Some even regarded any kind of coordination of fiscal policy as problematic, as this could undermine the disciplining effect (Beetsma and Bovenberg 1998). These arguments reflect the positions of supporters of the international gold standard system of fixed exchange rates as a means of lowering inflation, which are central for example in the Austrian School (De Soto 2012) and have been termed the "golden straitjacket" of globalisation by Thomas Friedman (1999).

In summary, we note that the stability vision of a Monetary Union is based on fundamental concepts about successful economic policy, especially in post-war Germany, and is heavily represented in the design of the euro. The central elements of this vision are firstly the overriding importance of internal (inflation) and external (exchange rate) monetary stability as the state-guaranteed basis of efficient markets to generate growth and prosperity. In order to safeguard these, there must, secondly, be clear limits to fiscal policy in a monetary union, especially if it is unclear whether it is stability-orientated or has a tendency towards politicisation of economic policy with tolerance of inflation and devaluation, and thus operates in contradiction to monetary stability. Finally, as the third component of central importance, the incentives for "poor" national policy must be reduced as effectively as possible in order to minimise moral hazard (the incentive to enter into risks created by externalisation of potential costs). The mechanism is described by the majority of the German Council of Economic Experts as a principle of the unity of liability and control: liability for possible consequences must be located at the same level as decision-making and control, because harmful incentive structures are otherwise unavoidable (Feld et al. 2016). This also explains the explicit rejection of conceivable models that include (even temporary) transfers or transnational liability without equivalent control of the policies of the countries for which such mechanisms would potentially be expected to assume liability (Stark 2015).

This understanding of the functioning of the Monetary Union carries through into the analysis of the euro crisis. The proponents of a stability union emphasise the lack of observance of the rules of the Maastricht Treaty (deficit and debt limits) and the negligent policies of the crisis states in the lead-up to the financial crisis, where competitiveness was lost (measured as unit labour costs), credit-driven consumer spending and property bubbles were allowed to form, and structural reforms of the labour market and the long-term sustainability of state finances (for example through pension reforms) were neglected. Fundamentally here, poor national policies within the institutional framework of the Monetary Union are defined as the cause of the crisis. Violation of stability rules necessarily leads to economic crisis (which is therefore the country's own fault) (Franz et al. 2010).

Here we can again cite an example from the majority of members of the German Council of Economic Experts, who describe the "two fundamental weaknesses of the Eurozone prior to the crisis" as follows: *"Firstly, there was a lack of economic and fiscal policy discipline, accompanied by dysfunctional sanctioning mechanisms as well as flawed financial regulation, leading to the build-up of huge public and private debt levels and a loss of competitiveness; [s]econdly, there was no credible mechanism for crisis response regarding bank and sovereign debt problems that would have been able to reign in moral hazard problems and establish market discipline"* (Feld et al. 2016).

In its interpretation of the crisis, the stability camp points to the good economic performance of countries like Germany, which it attributes to budget restraint, wage restraint and flexibility-focused structural reforms, while asserting that the crisis countries had lived beyond their means, permitted excessive pay increases, and failed to carry out painful but necessary reforms. Former ECB Executive Board member Jürgen Stark (2015) described this explicitly as deep-seated "cultural differences": *"The truth is that, in contrast to many eurozone countries, Germany has reliably pursued a prudent economic policy. While others were living beyond their means, Germany avoided excess. These are deep cultural differences and the currency union brings them to light once again."*

Assuming an efficient Monetary Union in free-market terms, with free movement of capital since the early 1990s but restricted movement of the production factor labour, the only remaining option to restore competitiveness is to reduce national price levels by cutting wages. The indicator of trade imbalances, which was central in the euro crisis, is also interpreted in this light: deficit countries that import more goods than they export have for years neglected their competitiveness by tolerating higher wages and rising inflation, and were only able to fund their unsustainable, excessive consumption and economic living standard by borrowing abroad.

Proponents of a stability union therefore demand stricter monitoring of the Maastricht criteria, and their tightening for example through national debt brakes and the Fiscal Compact, as well as broader and more direct possibilities for the supranational level to intervene and impose national structural reforms: *"After the experience of recent years the [poor policies in the crisis states] can only be counteracted by a new stability pact that enforces iron discipline on debt. We need modified debt rules, heavy punishments and above all new procedural rules that make these punishments automatic and withdraw them from the realm of political influence"* (translated from Sinn 2010). All conceivable mechanisms by which these adjustments could either be cushioned by nominal price changes (inflation) or eased by temporary transfers are therefore consistently rejected, as they would once again introduce moral hazard (Stark 2015): states might rely on the internalised option of assistance from other members and therefore neglect to do their national 'homework' (Feld et al. 2016).

If, despite strengthened rules and more direct intervention instruments, individual member states do get into difficulties, the ESM and the troika now supply adequate instruments to prevent insolvency and if necessary force the required reforms and cuts through credit conditions. As Sinn puts it, it is time to accept the bitter truth: *"The only option left is to insist on a phase of credit discipline and to end the phase of loose budgetary restrictions. […] It is time for Europe to face up to the realities and begin with the painful adjustment processes in the real economy that are necessary to restore equilibrium to the euro area"* (translated from Sinn 2010). Here some proponents go a step further and regard state insolvency arrangements as a necessity in particular to restore the credibility of the no-bailout rule and close one of the central loopholes for moral hazard (Feld et al. 2016).

From this perspective, macroeconomic imbalances can only be corrected by reducing wages and prices and deregulating product and service markets in the crisis states, in order to accelerate the implementation of necessary market-driven adjustment processes. Adjustments on the part of the surplus countries would not be helpful, as they would ultimately amount to a voluntary reduction in competitiveness (vis-à-vis the rest of the world), a punishment of the stability-orientated states and an easing of the adjustment for deficit countries, which would create a set of disincentives for competition-driven economic policy (Bundesbank 2010).

3.2 THE EMU AS A FISCAL UNION

The second camp in the debate over the ideal design and governance of the Monetary Union is made up of supporters of a fiscal union.

As with the stability union, the origins of the fiscal union concept for a single currency lie in the analysis of economic events in the national framework. The starting point is John Maynard Keynes's critique of classical economic theory, after the latter's failure in the Great Depression following the crash of 1929. His *General Theory of Employment, Interest and Money* of 1936 revolutionised ideas about the equilibrium assumptions of classical economics, which had hitherto dominated the discussion, and established modern macroeconomics. Keynes (2009 [1936]) shows how an economy in crisis can remain trapped in underemployment and disproves the classical assumption that lower wages would increase supply and thus boost demand. On the contrary, he argues, the market alone is incapable of returning to full-employment equilibrium following cyclical unemployment; the central reason for this, he argues, is the rationing of employment through the shortfall of aggregate demand in the markets for goods and products. Keynes argues that in the event of crisis, the markets require a stabilisation of aggregate demand. Consumer spending and investment cannot be regenerated by economic "laissez-faire"; instead government must take measures to (re)instate full employment.

The central actors in the demand stabilisation recommended by Keynes are in practice national governments and central banks. This is how, abandoning the classical paradigm of a market economy liberating itself from crisis, fiscal and monetary policies ushered in the post-war "golden age of capitalism" (Marglin/Schor 1992). And in contrast to the theories of the ordoliberal school (see Chapter 3.1), the social market economy as actually practiced in Western Europe until into the 1970s was strongly orientated on balancing the spheres of state and market (Schulmeister 2013: 121). Thus if interest- and exchange rate adjustments are required to stabilise the economy in the event of market failure, there would be little reason to abandon these instruments in a Monetary Union.

Within the realm of monetary integration theory, Robert Mundell's Theory of Optimum Currency Areas (1961) investigates whether the renunciation of independent national monetary policy would be a sensible step, by weighing up the costs and benefits of joining a monetary union. Mundell analyses the options for fighting asymmetric demand shocks affecting specific countries, because within a currency union, monetary policy interventions to stabilise cyclical and price fluctuations only function against shocks that affect all members symmetrically. He concludes that the existence of asymmetric shocks means that successful shock absorption is only conceivable in a world divided into currency areas that permit monetary and exchange rate policies corresponding to regional conditions: *"The optimum currency area is not the world. [...] The optimum currency area is the region" (ibid.: 659f.).*

The loss of monetary independence is compounded after accession to a monetary union by the renunciation of independent funding of state deficits. Members of a monetary union can no longer borrow in their own currency, and in the event of liquidity crises must rely on the understanding and patience of the common central bank and/or foreign creditors. Under these circumstances, liquidity crises can quickly lead to solvency problems, as was seen in the euro crisis. They are driven by asymmetric shocks, when financial markets – doubting the affected state's ability to service its loans – sell its bonds and thus drive up interest rates for new borrowing. Higher interest rates in turn cause the state debt to grow and curtail the affected state's fiscal leeway (De Grauwe 2016: 8ff.).

The fact that – despite this dangerous renunciation of national stabilisation policy – a monetary union also became a plausible project for proponents of the Keynesian worldview has to do with the supplanting of the "real-side capitalist" "navigation map" by the financial capitalist framework (Schulmeister 2013: 123) since the end of the 1970s. The economic worldview now returned to individual economic rationality and flexible markets, and brought about the end of the Bretton Woods system of fixed exchange rates and a gradual deregulation of financial markets. However, the resulting large movements of capital produced major currency crises, not only in Latin America and Asia, but also in Europe, where the EMS with its limited flexibility of exchange rates collapsed at the beginning of the 1990s in part through currency speculation.

In this situation, the costs of joining a monetary union appeared smaller than initially assumed. This applied in particular to smaller states that did not actually face the posited choice between joining a monetary union or maintaining their monetary autonomy, because their central banks were at the mercy of international currency markets anyway (Flassbeck/Lapavitsas 2015: 20f.). Moreover, under the impression of advancing internal market integration in the EU, the relevance of asymmetric shocks was regarded as increasingly small. Mundell (1961) concluded – quite in line with the supporters of a stability union – that the costs of loss of the option of national exchange rate adjustments after an asymmetric demand shock are smaller the more flexibly the production factors of labour and capital are able to move across the borders of the affected countries. Thus, he argued, adequate wage and price flexibility and the movement of workers from a country in economic recession to an economically prospering neighbour can make the use of monetary stabilisation instruments superfluous. Developments suggesting that a higher degree of economic openness while a country retains monetary sovereignty is associated with smaller costs of accession (McKinnon 1963) and the benefits of a diversified production structure (Kenen 1969), which ensures that in the event of shocks only a part of the domestic economy is affected, caused a monetary union to appear increasingly attractive to the already highly integrated European economies.

But this Keynesian perspective neither assumed the existence of an optimal currency area in Europe, nor did it share the positive view of the microeconomic benefits of a monetary union held by the proponents of a stability union (Kösters et al. 2001: 60ff.). Instead, Keynesians took the macroeconomic costs of monetary integration seriously and weighed them against the banishment of currency speculation in Europe. With respect to the incremental implementation of the European Economic and Monetary Union agreed in 1992 in Maastricht, the proponents of a fiscal union warned against regarding the emerging Eurozone of initially twelve states as an optimal currency area. Too great, they said, was its susceptibility to asymmetric shocks, and too weak the transnational factor mobility and trade integration within the Single Market (Eichengreen 1991).

Politically, however, the founding of the EMU in Europe was, from this perspective, not only a potential instrument for containing currency market speculation. Instead the experience of the EMS had also demonstrated that in the model of floating currencies within agreed exchange rate bands, the deutschmark as anchor currency had given the German Bundesbank a dominant position over monetary policy that many other states wanted to shake off. France especially felt its sovereignty was impaired, but repeatedly found itself forced to execute ordoliberal policies in order to keep the French franc within the agreed band. Especially in France the EMU therefore appeared to many as an opportunity to clip the wings of the German currency hegemon. To that end, the French were also willing to relinquish their monetary sovereignty in favour of a collective central bank (Jabko 2015: 73; Lierse 2011: 161ff.).

But apart from the political criterion of monetary containment of Germany – which should not be neglected and reappeared on the agenda with heightened relevance in the course of reunification (McNamara 2015) – the identified deficits of the Eurozone as an optimal currency area were used to justify new instruments for minimising possible risks. The widely differing paradigmatic positions of the central actors – as already mentioned in Chapter 3.1 – led the supporters of a stability union to strike a course designed to develop the EMU into an optimal currency area using market competition mechanisms but largely dispensing with monetary and fiscal instruments. By contrast, the supporters of a fiscal union saw the European states' lack of the characteristics of an optimal currency area as a clear sign of the necessity for fiscal instruments to meet the challenge of regional shocks. They remained sceptical about the beneficial effect of the Single Market project for reducing asymmetric shock potential and resisted the necessity of price and wage flexibility postulated by the opposing side. Shocks were localised not only on the supply side, but in the first place on the demand side. The active role of the state in reviving the economic cycle against the phenomenon of hoarding described by Keynes was now seen to be necessary at the transnational level (De Grauwe 2006: 726f.).

In the founding phase of the EMU, the United States in particular was often cited as a model demonstrating that budgetary transfers in the sense of fiscal federalism would be required in order to successfully address asymmetric shocks within a monetary union: *"The extent of regional problems within existing currency and customs unions like the United States underscores the need for regional shock absorbers, such as fiscal federalism, to accomodate asymmetrical disturbances"* (Eichengreen 1991: 24). If independent national monetary policy can no longer be pursued, the focus turns to fiscal policy. A system of fiscal transfers from member states with healthy growth to those affected by a negative demand shock would contribute to stabilisation. Above and beyond this, joint and/or coordinated policies in the areas of taxation, public spending, social and wage policy could prevent individual states pursuing unilateral decisions and thus reduce the susceptibility of the currency area to asymmetric shocks (De Grauwe 2006: 721).

The Keynesian option of stabilising policies at the Community level of a monetary union appeared in the Werner Plan of 1970, which provided for synchronisation of national budget procedures, fiscal harmonisation, and coordination of stabilisation policies through a Community-level decision-making organ.[3] The McDougall Report (European Commission 1977: 70) went a step further, proposing that a single currency be given a central budget of at least 5 percent of the total GDP of the participating states. While in the 1970s one could still assume a Keynesian consensus, this had changed considerably by the time an initiative for a European Monetary Union was next launched at the end of the 1980s. Although the Report on Economic and Monetary Union in the European Community published by Commission President Jacques Delors in 1989 also speaks of the necessity of a macroeconomic framework and Community policies, the monetarist/ordoliberal argument of budgetary disciplining of national fiscal policies also moves to the fore: *[...A]n agreed macroeconomic framework and [...] binding procedures and rules [...] would permit the determination of an overall policy stance for the Community as a whole, avoid unsustainable differences between individual member countries in public-sector borrowing requirements and place binding constraints on the size and the financing of budget deficits"* (Committee for the Study of Economic and Monetary Union 1989: 14).

In the negotiations for the Treaty of Maastricht the stabilityorientated zeitgeist came out largely on top, which suited Germany in particular with its interest in price stability and deficit avoidance. France on the other hand argued for an economic government of the Monetary Union. Institutionally, this produced the Council's regular recommendations on guidelines for economic policy (Article 121, TFEU) and the Eurogroup as an initially informal organ. Faced with the hard criteria for accession to the EMU – the deficit rule and its tightening in 1997 in the Stability and Growth Pact – and the ECB's prioritisation of price stability, the French perspective of an explicit economic coordination pillar of the Eurozone was ultimately reflected only in the form of soft policies (Pisani-Ferry 2006).

This understanding of the functioning of the EMU as an economic as well as monetary project experienced a renaissance among the proponents of a fiscal union during the euro crisis. Now it became clear that the asymmetric shocks highlighted by Mundell could test the Eurozone to breaking point. On account of the heterogeneous economic developments since the launch of the euro, the ECB had never been in a position to conduct a monetary policy that made sense

3 The Werner Plan leaves no doubt as to the necessity for monetary cooperation to be accompanied by political: *"In particular the development of monetary unification must be based on sufficient progress in the field of convergence and then in that of the unification of economic policies."* Without a progressive development towards political cooperation with the objective of political union, it argues, a monetary union will not survive (translated from Werner 1970, quoted from Lipgens 1986: 533).

for all the participating countries with regard to their different business cycle positions. At the same time, the collective economic policy coordination instruments agreed in Maastricht and thereafter – the Economic Policy Guidelines, the Macroeconomic Dialogue, the ten-year Lisbon and Europe 2020 Strategies – turned out to be toothless, and the joint institutions ECOFIN Council and Eurogroup (and even more so the European Commission and Parliament) to be too weak or unwilling to be able to do anything effective about the regularly occurring asymmetries. The only relevant economic policy coordination of the Eurozone relates to member states' deficits and debts. But if independent monetary policy can no longer be conducted and anti-cyclical tools of national fiscal policy are severely restricted, budgetary surveillance worsens the situation and is useless as an instrument of transnational coordination (Buiter 2006: 698). Adjustment to asymmetric shocks is thus left to wage policy in the nation states (Busch 1994); but once inflation differentials have arisen they can easily expand pro-cyclically through the ECB's "one-size-fits-none" interest rate policy (Enderlein 2005) and unregulated international capital flows (Merler 2015).

As far as the fiscal union camp is concerned, the euro crisis proves their case that the architecture of the EMU is incomplete. Accordingly, all proposals originating from this camp assume the necessity for closer harmonisation of economic policy. The decisive goal here is not the establishment of real convergence between the member states, but to ensure nominal convergence, for instance of current account balances, inflation rates and unit labour costs (Auf dem Brincke et al. 2015). The reasons for the euro crisis are sought not only in the mistakes of individual states, but in institutional "design failures" (De Grauwe 2015) of the EMU. The proponents of a fiscal union therefore respond with incredulity to the asymmetry of crisis management, which suggests that states with large budget deficits and public debt and negative current account balances bear a specific responsibility for the crisis. In the eyes of the advocates of a fiscal union, a crisis management policy that prioritises austerity and consciously accepts deflationary developments has failed to learn the lessons of the Great Depression of the 1930s (Heise 2015). In the view of the fiscal union camp, the following points represent the only positive aspects of the crisis response to date, and only with caveats:

- The de facto abandonment of the no-bailout rule through the establishment of a permanent ESM, because this anchors the principle of shared liability. The strict conditions placed on assistance from the ESM (precluding cyclical adjustment programmes) are classed as counterproductive (Busch et al. 2012).
- The introduction of a regulated Macroeconomic Imbalance Procedure, (MIP), which supplements one-sided control of budget policies with numerous additional indicators for identifying macroeconomic imbalances between the states. Criticism is expressed of its asymmetry in treating current account surpluses as less relevant for economic instability than current account deficits, and also the to date weak application of the sanction instruments in case of state mismanagement and the simultaneous tightening of budgetary controls (De Grauwe 2012).
- The unorthodox policy of the ECB as de facto "lender of last resort", which has over the course of the crisis developed into the guarantor of the EMU. The ECB's crisis management instruments include a zero-interest policy, negative deposit rates and bond purchases on the secondary market. Beyond this ECB President Mario Draghi regularly points to the need for fiscal stimulus to overcome the euro crisis, but at the same time underlines the necessity for structural reforms and observance of budgetary rules: *"Fiscal policies should support the economic recovery, while remaining in compliance with the fiscal rules of the European Union. Full and consistent implementation of the Stability and Growth Pact is crucial to maintain confidence in the fiscal framework. At the same time, all countries should strive for a more growth-friendly composition of fiscal policies"* (Draghi 2016).
- The already initiated Banking Union with joint supervision, resolution and liability instruments for establishing a uniform policy towards financial institutions. Criticism is expressed that the Single Resolution Fund for transnational liability has been developed as a last resort, is too small and will not be fully operational until 2024 (Lindner et al. 2014).
- The crisis-driven strengthening of the Eurogroup as an independent formation for decisions affecting the EMU and integrating EU mechanisms for coordinating employment and social policy into the enhanced European Semester since 2010. The subordination under the objectives of budgetary surveillance created by the linkage is however criticised (Armstrong 2012).
- The European Fund for Strategic Investments (EFSI) initiated by the Juncker Commission as a central initiative for economic intervention in the euro area and the associated reinterpretation of the Stability and Growth Pact with respect to expanded flexibility over state investment spending in times of crisis. Criticism is expressed of the small volume of the fund and its primary focus on activating private investment (Horn et al. 2015: 8ff.).

The fiscal union supporters sharply criticise the "Berlin consensus" (Bofinger 2012: 77) in European crisis management, under which the euro crisis is understood primarily as a public debt crisis. On the contrary, the concentration on stricter budgetary discipline, internal devaluation through spending cuts and structural reforms, and trust in market discipline are understood as the recipe for a protracted crisis. The responsible politicians, it is asserted, are heading wilfully into deflation, which will exacerbate the crisis and contribute nothing to stabilising the Monetary Union: *"Deflation is the surest way to wreck an economy. [...] Seeking a Monetary Union without a political union is an illusion"* (translated from Herr 2012: 3). Peter Bofinger speaks of a "policy of muddling through", whose consequences have caused considerable economic and political harm: *"In other words, a fundamental change of course is required. This change of course must be guided by the insight that the architecture of the Monetary Union as adopted in the Treaty of Maastricht has lost its viability through the convulsions of the financial crisis. If the monetary integration implemented through the founding of the ECB and the introduction of the euro is to have a future, there will be no alternative to closer fiscal integration"* (translated from Bofinger 2012: 111).

Concrete proposals for faster fiscal integration of the Eurozone range from ideas for joint debt management through Eurobonds (Delpla/von Weizsäcker 2011) or a redemption fund (Sachverständigenrat 2012) through the establishment of a joint budget, stabilisation funds and/or fiscal capacity (De Grauwe/Ji 2016; Pisani-Ferry et al. 2013) to the establishment of a joint insurance mechanism (Dullien 2014; Enderlein et al. 2013). The central thought is firstly, to bring together liability for state debt at the European level, in order to prevent the financial markets from exploiting differences in the creditworthiness of the euro states. Secondly, the introduction of an automatic cyclical stabiliser at European level would compensate the inadequate adjustment to asymmetric shocks caused by inadequate mobility of labour and replace internal devaluation through falling wages and prices, which is regarded as counterproductive. In place of structural supply-side reforms, demand in regions affected by a negative demand shock would be stimulated via a fiscal transfer system using state spending or tax breaks: *"The idea of EMU-level automatic stabilisers is to be able to respond to asymmetric shocks or endogenous pressures in the monetary union and to uphold aggregate demand in the short term, before factors of production can be reorganised in the affected economy and recovery can resume. In other words, the point is to maintain enough spending during a downturn, before failed companies are turned around or replaced by new ones and before workers who lost their jobs can find new employment"* (Andor 2014: 187).

Closer coordination of other policy areas is also sought to avoid asymmetric shocks, for example in the area of wage policy (Dufresne 2015; Pusch 2011) and social policies: *"The absence of any other adjustment mechanism is one reason why the EMU is sometimes criticised for lacking a social dimension: unless countries undergoing an asymmetric shock have low debt/GDP ratios and can thus afford individual fiscal expansion (which will most likely not be the case in the next few decades), the only possible adjustment in the EMU is through cost-cutting and ever-greater flexibility in the labour market. [...A] social dimension cannot be achieved without a mechanism for collectively monitoring and preventing employment and social imbalances – and for collectively detecting and tackling them when they arise"* (Andor 2013: 2).

The demand for an explicit political union is raised at least for the medium to long term. Here the single currency is regarded as a shared public good requiring a parliament-controlled government for the Eurozone with revenue and spending rights (Collignon 2014; De Grauwe 2006): *"It is well known that public goods are not efficiently provided by the markets, because with free access individuals could free-ride on others who are willing to pay for them. [...] Democracy is the mechanism that makes sure that the supply of public goods coincides with the collective demand of the people concerned. [...] I have called the limited government for European public goods the European Republic. The Euro-crisis has revealed that the old ways of governing Europe no longer work. The republican paradigm points in a new direction. It focuses on public goods, Europe's res publica, which affects and concerns all European citizens"* (Collignon 2014: 105f.). In this connection there is frequent reference to a "European economic government" to be legitimised by a "euro parliament".

3.3 INTERIM SUMMARY: INSTRUMENTS FOR TWO CONCEPTS OF A MONETARY UNION

The historical summary outlined above reveals very clearly how sharp the theoretical divide is between the supporters of a stability union and a fiscal union. The roots of today's controversies over the future shape of the EMU's architecture are to be found in diametrically opposed economic paradigms. The belief in rule-based self-regulation of free-market forces comes up against a conviction of the importance of economic governance.[4] In the founding phase of the EMU, a debate that had hitherto been conducted at the national level moved to the transnational. At the time, the conflict was papered over with a compromise under which strict stability rules for national budgets and a central bank dedicated primarily to price stability would go hand in hand with a permanent growth pact and economic policy coordination. Since the advent of the euro crisis, we now know that none of that was enough to secure lasting socio-economic convergence in the Eurozone (Dauderstädt 2014). And there has certainly been no coming together of the perspectives. In the ongoing crisis, the arguments over the future course of the Monetary Union are the same as during its founding period. Yet a differentiated understanding of the reasons for the euro crisis is a central precondition for demands for additional instruments to crisis-proof the Monetary Union. As such, the causal analyses of the euro crisis conducted in the scope of two very different economic paradigms determine to a great extent the concrete political proposals for reforms of the EMU.

Accordingly, the development of the EMU into a stability union involves

- a strict regime of binding budgetary rules;
- ideally automatic sanctions in the event of non-fulfilment;
- reinstatement of the no-bailout rule through an insolvency procedure for states;
- competition-driven structural reforms and internal devaluations, also as a consequence of rule-breaking;
- greater Community-level control over national economic policy to secure structural reforms and budgetary compliance, through a finance minister for the Eurozone (without a political mandate).

While the stability union camp believes the development of the EMU should do no more than strengthen the reach and strictness of the current Eurozone status quo ante and sharpen existing rules, expansion into a fiscal union would demand significantly broader reforms:

- a Banking Union to bring together the oversight, resolution and deposit protection at the European level;
- joint debt management for the euro states;
- an automatic stabiliser to enable cyclical financial transfers between member states;

4 In their analysis of reform proposals for the EMU, Katharina Gnath and Jörg Haas (2015) find a similar dichotomy, and see the fiscal union perspective as tied to an objective of risk-sharing, while the stability union perspective would be associated with the objective of sovereignty-sharing.

- closer coordination of economic, employment and social policies above and beyond state deficits and debt levels;
- in the longer term a federal political union with an economic government responsible for the Eurozone and having parliamentary legitimacy.

In the following, we will examine the place of these aforementioned instruments in the member states' contributions to the preparation of the Five Presidents' Reports and classify the arguments put forward by the individual governments into the two central categories of stability union and fiscal union.

4

STABILITY UNION AND FISCAL UNION IN THE CREATION OF THE FIVE PRESIDENTS' REPORT

In order to assess the process leading to the final report and give an outlook on the upcoming Commission Reflection Paper and the political starting situation for further integration steps, we present in the following a detailed analysis of the Sherpa contributions submitted by the EU member states in the process of preparing the Five Presidents' Report. Given that (almost) all the national contributions are publicly accessible, this represents a special opportunity – outside of the unanimously agreed summit declarations – to gain insights into national sensitivities, positions and plans for the future shape of the EMU. As outlined in the following, this analysis permits deep insights into the power relations of the Eurozone, but also into the current state of the long-running conflict between supporters of a stability union on the one side and the advocates of a fiscal union on the other.

SUMMARY:

- The divide between the stability union and fiscal union perspectives for the Eurozone is also reflected in the preparatory process for the Five Presidents' Report.
- Both positions are included in deliberately vague form in the Commission document initiating the new reform process.
- The member states contributions can be classified into three camps on the basis of their proposals on the two diverging reform perspectives.
- Supporters of a stability union (Finland, Estonia, Lithuania, Germany, Malta, the Netherlands, Denmark, Romania, Hungary) reject both an expansion of economic governance and deeper fiscal integration.
- Supporters of a fiscal union (Italy, Spain, Portugal, Belgium, Luxembourg, Slovenia, Latvia, France) argue for an expansion of both economic governance and fiscal integration.
- Supporters of a fiscal union with restrictions (Cyprus, Slovakia, Croatia, Poland, Ireland, Austria, Czech Republic) argue in principle for further development of the Monetary Union, seeking either more economic governance or fiscal integration steps – but not both.

Our classification of the contributions into two central reform camps – stability union and fiscal union – is based on qualitative examination of the arguments they put forward. This involved more than noting mere mention of the reform instruments described in the previous chapter. It also took into account the ways analyses of the functionality of the Eurozone differentiated between systemic errors in the architecture of the EMU and individual mistakes made by member states. The central distinguishing characteristic is therefore the question whether the current economic governance framework of the EMU is adequate (given consistent application or tightening) or whether it is regarded as insufficient to prevent future crises and therefore needs to be deepened through adaptation of economic governance and greater fiscal integration. States belonging to the stability union camp reject changes in either of these two areas, whereas the supporters of a fiscal union demand movement in both. There is also a third group of countries that argues for neither a stability union nor a fiscal union, but can imagine developments towards a fiscal union in at least one of the two areas of reform (see Table 1).

Table 1
Visions for the Eurozone and support/rejection of central reforms

Vision for the future Eurozone	Expansion of economic governance	Expansion of fiscal integration
Stability union	No	No
Fiscal union	Yes	Yes
Fiscal union with restrictions	Yes/No	No/Yes

Source: authors.

The order in which the member states are discussed takes into account their closeness to the two core theoretical issues described in chapter 3. The country presented first (in chapters 4.2 and 4.4 respectively) is the one with the furthest-reaching position, with the intensity declining from country to country in the course of the chapter.

For the sake of completeness, it is important to note that certain states are not included in the study, either because they chose not to submit any contribution, because they chose not to publish it, or because they did not concretely address the debate over reform of the EMU. This applies to the Greek (unpublished) and Bulgarian (not submitted) positions and the contributions of the United Kingdom and Sweden, both of which chose not to address the debate on the future of the Eurozone, and restricted themselves to procedural input. In addition, two contributions from the European Parliament, which also flowed into the Sherpa process between member states and Commission, are analysed (see Chapter 4.6).

4.1 THE STARTING POINT: THE COMMISSION'S ANALYTICAL NOTE

Conceived as a technocratic document to initiate a political debate among the member states, the Analytical Note published by the Commission in February 2015 is by design open-ended and avoids clearly rejecting various political positions that might potentially be put forward by a member. Nonetheless, at certain points we can observe tendencies that can be classified on the spectrum between fiscal and stability union.

The Analytical Note begins by presenting the crisis as having various origins, with different channels contributing to its outbreak and course. First of all, the outbreak of the crisis in the financial sector is discussed, emphasising how it ultimately resurfaced in public budgets: *"A feature of particular relevance to the euro area was the negative feedback loop between bank and government sovereign debt. […] Thus, in these countries, a crisis of banks quickly became a crisis of public finances, with a direct impact on the real economy"* (Juncker 2015a: 2).

So as far as the financial and fiscal aspect of the crisis is concerned, the blame is placed not – as the stability camp would have it – exclusively at the door of the states that are highly indebted today. Instead, the Note points to its roots in the financial crisis and explicitly points out that this then "became a crisis of public finances". The nation states are by no means let off the hook, however, as the document goes on to point very clearly to the missed opportunities for greater consolidation before the crisis and the way almost all the member states ignored and deliberately weakened the Stability and Growth Pact. Nonetheless, it must be noted that on this point, the document shares its (partially) systemic analysis with the supporters of a fiscal union.

The second point that the Analytical Note addresses in its causal analysis is that the Eurozone crisis "can also be said to have been a competitiveness crisis", where some of the weaknesses predated its outbreak. In particular, certain states failed to use the boom phase before the crisis to address existing "rigidities in product and labour markets". These rigidities, defined in a figure as "average of employment protection legislation and product market regulator OECD indicators", led, it asserts, to inadequately efficient and flexible allocation of resources before the crisis (ibid.: 4). Also, it says, unit labour costs rose strongly in certain countries up until 2008, leading to declining competitiveness vis-à-vis other Eurozone states and larger external economic deficits. Together, these developments are said to have led to higher unemployment in certain countries when the crisis broke out.

In the area of real economy developments, the Analytical Note therefore adopts a stance tending towards the stability vision: The countries that have been worst affected by the crisis are, it says, themselves to blame through their failure to reduce regulation of labour and product markets, as well as excessive pay increases. Only in a subsequent, causally vague paragraph does it address the systemic flip side of these developments (which supporters of a fiscal union emphasise): *"In addition, the relatively favourable financing conditions in the first years of the euro led to a misallocation of sources of financing towards less productive forms of investment, such as real estate"* (ibid.). The document also mentions a so-called "crisis of markets", where investors treated all euro countries similarly, with an excessive correction of this assumption after the outbreak of crisis leaving some countries forced to shoulder astronomical interest rates for their borrowing. The common financial market and the origination of cheap credit in countries like France and Germany is however not explicitly named as a factor contributing to an accumulation of real economic imbalances and funding rising real wages. Thus, here the Commission abides by the stability perspective, although the systemic component of the pre-crisis financing conditions in the crisis-affected countries is at least mentioned. The possibility of financial market failure and its contribution to state debt is considered, but not market failure in other problematic areas, which is attributed to defective pre-crisis state policies.

In its analysis of the crisis, the Analytical Note thus oscillates between the fiscal and stability positions. The proposed solutions are described in much less detail, which is understandable in light of the document's intended purpose. The only concrete policies that are put forward relate to strengthened implementation of "structural reforms" for reducing the analysed rigidities in all member states and an initiative to create a single capital market in Europe, which would establish corporate bonds and other derivatives as alternative funding sources to bank loans: *"Tangible progress on these two blocks – growth-enhancing structural reforms and deepening the Single Market – will contribute to the smooth functioning of Economic and Monetary Union in the short term"* (ibid.: 7). As far as the identified problem of entanglement of state finances with financial crises is concerned, the document notes that this is addressed through the introduction of the Banking Union in the form of the Single Supervisory Mechanism, Single Resolution Mechanism and the harmonised national deposit protection schemes.

However, in the longer term – with reference to the reform plans of the Commission and the President of the European Council from 2012 (which are still regarded as valid) – the Analytical Note also calls for the comprehensive development of the EMU not to be neglected. It justifies this on the grounds that the Eurozone in 2015 remains trapped in crisis mode, while the United States is in much better shape economically: *"The euro area has not recovered from the* *crisis in the same way as the U.S., which might point to the fact that an incomplete monetary union adjusts much slower than one with a more complete institutional setup in place"* (ibid.).

4.2 THE STABILITY UNION CAMP

In order to identify the stability union camp, we must analyse the states' assessments and interpretations of the causes of the crisis and the required reforms, in the two major fields of economic governance and fiscal cooperation. The supporters of a stability union reject greater fiscal integration, on account of the risk of creating a liability union and delaying reforms. They also oppose changing economic governance in the Eurozone, instead regarding implementing pro-competitive "structural reforms" in the crisis states as the central goal.

4.2.1 FINLAND

The positions of the Finnish negotiators clearly represent this perspective. In relation to fiscal policy, for example, they argue that the Commission should concentrate on those areas with "the most direct link to the stability of EMU", meaning "primarily the EDP" (excessive debt procedure) (Finland 2015a: 3). Here, they call for strict application of rules by the EU level, and (where necessary) sanctions against states. This contrasts to other policy areas prioritised in the systemic perspective of the fiscal union camp: The Macroeconomic Imbalance Procedure for example, the Finnish contribution argues, is a policy area "where the link with EMU stability is more distant and where competence remains clearly at the national level" (ibid.). Accordingly, economic policy coordination in this area should "rely mainly on peer pressure, best practices and open exchange of views, rather than on sanctions" (ibid.). From the perspective of a stability union, no further integration or firmer implementation is called for, because the imbalances are regarded primarily as the consequence of poor policies in individual states. Here, in fact, the procedure is explicitly reinterpreted as another vehicle for structural reforms and alienated from its purpose of restricting current account imbalances: *"The MIP should not be about coercion but primarily about building political support and ownership for structural reform in Member States"* (ibid.). Here again, the observed imbalances are treated as the result of structural policy neglect and in no sense as the outcome of incomplete integration of a currency area with free flows of capital. In this context, the institutional changes to the ESM that have already been implemented are regarded as a stopgap required after individual national governments ignored the agreed rules on fiscal policy. The Finnish contribution clearly demands: "In the medium and longer term, we should return to the full respect of the no bail-out rule" (Finland 2015b: 3).

Consistently, absolutely no common fiscal capacity is proposed for the Eurozone. The contribution argues instead that collective spending would be unnecessary if national fiscal policy obeyed the rules. Instead, such a fiscal capacity is interpreted as an instrument for transfers and joint liability between states with inadequate real and nominal convergence – which the Finns reject: *"As long as the Member States are as heterogeneous as they are today, creation of a possible fiscal capacity would in effect entail a transfer union and expand joint liability. Therefore considering a fiscal capacity is not realistic before a much closer economic convergence among the Member States has been achieved, including of debt levels"* (ibid.). As a mechanism for cushioning asymmetric shocks, the Finnish contribution argues, a fully-functioning Banking Union would anyway be "much more effective" (ibid.). Nor does a fiscal capacity make sense as a mechanism for incentivising structural reforms, as one does not require compensation for reforms that are "beneficial as such" (ibid.). While the lack of implementation of recommended structural reforms by the nation states is recognised as one of the "real problems", it is attributed to lack of ownership on the part of the governments and parliaments and thus potentially addressable through better involvement of the national parliaments in the European Semester (Finland 2015a: 2). So here too, poor national policies – in the guise of inadequate implementation of painful but necessary austerity measures and structural reforms – are understood as the cause of the manifestations of crisis.

According to the Finnish contribution, a closer political union at EMU level is therefore not necessary either; given that political responsibility for economic policy is sited at the national level, "political legitimacy and accountability of economic policy-making is best secured at national level through national parliaments" (Finland 2015b: 3). Finland pithily states the declared goal of the stability union: *"The aim should be an EMU where market pressure works in a predictable manner to support fiscal discipline and structural reform"* (ibid.).

4.2.2 ESTONIA

The Estonian contribution is also clearly committed to a stability union and pursues a similar line of argument. Great emphasis is placed on implementation and reinforcement of existing rules, especially in the fiscal realm: *"Most importantly the Commission should use its full powers to assess the budgetary plans and to make recommendations proportional to the imbalances and risks involved. Flexibility must stay firmly within the agreed framework of the Stability and Growth Pact"* (Estonia 2015: 2). The Estonian contribution also identifies poor national policies as problematic, and is therefore open to the proposed "contractual agreements". These represent binding agreements on structural reforms between the Commission and individual member states and are intended to accelerate the pace of implementation of reform recommendations. Estonia argues that such agreements could lead to greater ownership and better coordination of policy (ibid.).

A fiscal capacity, on the other hand, is regarded considerably more critically – neither to fund reforms nor to address asymmetric shocks. In both cases the Estonian contribution warns against "mechanisms of transfer" that involve "moral hazard" (ibid.). For shock management, Estonia instead proposes a national reserve fund system, through which each member state could insure itself against crises. Estonia therefore consistently rejects any kind of joint debt management: *"Neither the current situation in the Member States nor* *the level of integration provide for a stable environment for common risk sharing, such as, but not limited to common bond issuance"* (ibid.: 3).

4.2.3 LITHUANIA

Lithuania's positions also lie clearly within the stability union camp. Its negotiators emphasise that the existing fiscal framework is "properly designed"; the problem, they say, is "a lack of political will" for implementation (Lithuania 2015: 2). On economic policy coordination, the contribution also argues that agreed reforms to "improve adjustment capacity" need to be implemented more fully and possibly more closely monitored by the Commission. This perspective is grounded in a classical stability union analysis of the situation: *"The current situation showed that if Member States are not implementing structural reforms and sound fiscal policy at national level, monetary policy alone is not sufficient for reviving the [Euro Area] economy"* (ibid.: 3).

As in the contributions already discussed, Lithuania rejects a common fiscal capacity; one must "take into account that tax policies belong to national competence" and that the reforms "are beneficial for Member States", making financial incentives superfluous (ibid.: 4). Here too, a coherent theory of poor national policies leading to crisis clearly predominates. If only the respective fiscal and structural policies were corrected, the crisis could be overcome.

Correspondingly, no further reforms (such as establishing a European deposit guarantee scheme) are proposed for the Banking Union either. Instead implementation of the existing, less collective arrangements is emphasised: *"Therefore, primary focus now should be on final implementation of the Banking Union. Only then it will be possible to make final evaluation of the effectiveness of the reform and its input in reducing the fiscal-financial nexus"* (ibid.: 3).

Stronger democratic institutions at supranational level are not proposed either; instead consultation of and coordination between national parliaments should be strengthened.

4.2.4 GERMANY

The specific analytical take of the stability camp is also clearly reflected in the German contribution, although rather less sweepingly. Particular weight is placed on the interpretation of the crisis as a "'competitiveness crisis' because Euro area Member States hadn't sufficiently used the 'boom period' to tackle existing structural weaknesses" (Germany 2015: 3). At a more granular level, the contribution refers specifically to the "very important" aspect of "'nominal and real rigidities in product and labour markets' predating the crisis and preventing the efficient allocation of resources" (ibid.).

Even if there is otherwise less detailed discussion of the opposing options, the stability union perspective dominates. The lack of structural reforms to create "flexibility" in product and labour markets is regarded as the central cause of crisis and the most important hurdle on the path to recovery in the Eurozone.

But as a whole, Berlin takes a restrained approach in its contribution to the Five Presidents' Report and in fact tends to constrain the process by emphasising that the Sherpa process should not overstep its mandate: Efforts to deal with the crisis at national and European level "cannot be the prime concern of this Sherpa process. As for the relevant European projects they can and should be left to the normal fora and procedures" (ibid.). The German contribution questions the Commission's stated goal for the entire process and calls for the process to concentrate "on the medium-term perspective of reinforcing EMU architecture, namely through stronger economic policy coordination" (ibid.). Here it is conspicuous that an attempt is being made to steer the discussion away from exploration of potential new instruments and institutions and instead to centre it on the sphere of reinforcing implementation and coordination of national policies. This can again be interpreted as an argument for the stability union, seeking to minimise supranational governance and integration and restrict action to stronger control of national economic policy guided by a (largely implicit) stability paradigm.

In addition to their individual contributions, Germany and France later also published a joint paper laying out the policy areas in which progress needs to be achieved. Although the language here is less definite than in other contributions, it points the way to a compromise that – like the German contribution – leans more towards the stability camp.

In particular, it is noticeable that it does not call for significant institutional shifts towards a fiscal union. It addresses at length the implementation and prioritisation of the country-specific recommendations in the European Semester. This is followed by a listing of possible measures "to promote the real convergence of the economies and the resilience of the Eurozone" (translated from Germany/France 2015: 3). But these are mostly aspects affecting the Single Market. Apart from implementing the Banking Union and the Capital Markets Union, a call for a common tax base in Europe, and the introduction of nationally defined minimum wages, no EMU-wide initiatives are mentioned. Thus, for example, there is no place for joint debt management or a fiscal capacity.

Only in the field of democratic legitimation does the document call for reforms at the Eurozone level, such as the possibility of a Eurozone chamber in the European Parliament or strengthening the role of the President of the Eurogroup. Nonetheless, the stability union remains the principal point of reference, and national economic responsibility is writ large: *"At the same time, democratic control, legitimacy and responsibility must be ensured at the national level"* (ibid.: 4).

4.2.5 MALTA

Malta also argues, in line with the stability vision, that the crisis and its resolution do not originate in systemic causes associated with the incomplete nature of the Monetary Union. Instead Malta also places the focus on "[s]tructural reforms which increase the return on investment" (Malta 2015b: 2) in the interests of improving national competitiveness. Consistently, the Maltese contribution also concludes that "the positive results brought about by structural reforms should themselves act as an incentive" (ibid.: 3), because for example competitiveness increases productivity. The Maltese negotiators note that many reforms have already been initiated, and argue against further changes in the governance framework, especially with respect to convergence: *"[W]e do not see the need for the introduction of new rules on economic and fiscal governance and certainly not of rules that would be prescriptive in nature and ignore the inherent differences in Member States which cannot be converged"* (Malta 2015a: 1).

Nor does Malta see any need or treaty basis for further fiscal integration within the Eurozone: *"We are in principle against any form of additional fiscal capacity for the Euro Area other than that already provided by the EU budget"* (Malta 2015b: 3). Malta believes that the "existing instruments" in the form of the ESM, together with the ECB's motto to "do whatever it takes", are sufficient to provide the shock-absorption that a Monetary Union needs (ibid.). And Malta explicitly addresses its rejection of any form of reforms requiring joint institutional solutions to the other camp: *"At this juncture Malta does not subscribe to any proposals that would lead to a fiscal union"* (ibid.: 4).

4.2.6 NETHERLANDS

The Dutch contribution can also be assigned to the stability camp. It argues very explicitly that the member states should not wait for initiatives or policies from the European level, but should instead "take responsibility and do their part now" (Netherlands 2015a: 2). All the member states, it argues, should modernise their economies, deepen the Single Market and reform their administration along the lines of a proposed "Better Governance Agenda".[5] The Netherlands sees the main remedy for overcoming the crisis in "modern economies" that need to be "strong and flexible" in order to achieve growth, real convergence and resilience to shocks (ibid.). The problem, the contribution argues, is currently that: "Structural reforms are too often shunned and Member States' track record of implementing country-specific recommendations is poor" (ibid.).

New rules and institutions for achieving the desired national policies are not necessary: *"As long as the full capacity of existing rules is not being used, new rules will not help us. […] Proper implementation of recommendations and existing agreements is the solution to many of our problems"* (ibid.). Towards the end, the contribution becomes even clearer and clearly rejects any further integration steps for the foreseeable future: *"Addressing questions in the realm of further risk sharing, new competences or institutions in the Four Presidents' Report is premature"* (ibid.: 4).

4.2.7 DENMARK

Among the group of EU countries with their own currency, the focus on a stability union is especially strong in the Danish contribution:

"It is the view of Denmark that the current governance framework, including the new rules – if fully implemented – is sufficient to address the challenges mentioned in the analytical note. The long run prosperity of the euro area and the EU depends on Member States' structural reforms that are in turn supported by the current governance framework" (Denmark 2015: 3). Further steps towards a fiscal union are neither proposed nor felt to be necessary, because Denmark takes the view that "the EMU will be able to function well within the framework of the new and improved rules, provided they are fully implemented and enforced" (ibid.: 5).

The analytical perspective of the stability union is clear here: "rule compliance" is central to mastering the challenges of the EMU. New instruments like joint debt management or a fiscal capacity would not, it is argued, address the problem of compliance and are therefore superfluous. Moreover, they are positively undesirable for Denmark on account of moral hazard in relation to structural reforms (ibid.: 4).

4.2.8 ROMANIA

Romania can also be considered as part of the stability camp, although less explicitly than the countries discussed above.

The Romanian negotiators emphasise the importance of implementing and to an extent simplifying the existing rules and do not mention further institutional reforms. Like others, the Romanian government underlines the responsibility of all member states for structural reforms: *"Sustained responsibility from all Member States it vital for ensuring a sound fiscal and economic position which will lead to an increased level of trust within EU Member States and to more resilience to shocks in the EU economy"* (Romania 2015: 1). Competitiveness, as a central goal of the EU, is defined as the desired focus of the EMU institutions, without any necessity for further institutional changes.

Romania emphasises: *"While acknowledging that important challenges remain with respect to the shock-resilience of the Euro area, we deem more efficient, at least on a short and medium term, to focus on the full implementation, both at EU and national level of the already consolidated mechanisms within the governance framework"* (ibid.: 3). The contribution also notes that the EU as a whole possesses "sufficient instruments" (ibid.).

4.2.9 HUNGARY

Finally Hungary, like Romania, can also be assigned to the stability camp. The Hungarian government has repeatedly underlined its commitment to the existing focus on pro-competitive reforms in the member states: *"The most important objective of structural reforms in my understanding is to enhance competitiveness. The ultimate objective of the structural reforms is to enhance competitiveness in global terms and that implies competition also within the EU"* (Hungary 2015b: 2). Budapest itself is "firmly committed to continue the policy of growth enhancing structural reforms, investment and fiscal discipline" (Hungary 2015a: 2).

Neither analysis of the crisis nor its attitude towards further institutional steps feature in any great depth in the two submitted Hungarian contributions, but the focus on national competitiveness and on implementation and enforcement of existing stability-driven reforms clearly illustrate its leanings towards that camp.

---

5 This "Better Governance Agenda" is described in greater detail in a second Dutch contribution (Netherlands 2015b). As its content diverges from the rest of the debate, we restrict the discussion here to the first contribution.

4.3 INTERIM SUMMARY ON THE STABILITY UNION

Summarising the contributions presented above, it can be said that the Eurozone states Finland, Estonia, Lithuania, Germany, Malta and the Netherlands clearly belong to the stability union camp. They all emphasise that the causes of the euro crisis lie in what they see as poor policies of individual states, and correspondingly demand reforms to correct these errors. From this perspective, further-reaching integration steps are not necessary (and frequently not desirable), apart from demands in certain quarters for the Commission to be given stronger powers to monitor and sanction national economic decisions.

These six states represent the ideological base of the stability union, and are united by their conviction that the uppermost priority is to prevent the introduction of transfers to poorer or less "reform-oriented" states. The latter applies especially to Estonia and Lithuania, both of which have experienced painful austerity programmes under the existing stability arrangements, and therefore may tend to see other countries' problems as resulting from inadequate implementation of reforms. One interpretation could be that in Finland, the Netherlands and Germany right-wing populist parties represent a direct threat to the established political spectrum, which frequently finds itself accused of failing to pursue national interests sufficiently in the European context. This has the effect of increasing the determination of these states to defend their own domestic tax revenues.

The joint Franco-German paper hints at a compromise, but is conspicuous for its absence of any further-reaching steps towards a fiscal union. With its focus on the implementation of existing measures and the strengthening of structural reforms directed towards competitiveness, the contribution must therefore also be assigned to the stability union camp. The paper does play a special role in the debate between the two camps over the vision for the future of the EMU, to the extent that the position expressed in Germany's own contribution is also the one represented in the joint document with France: an exclusive focus on implementation with only minimal changes to existing frameworks, and the conspicuous absence of further integration steps or complementary reforms leading towards the systemic perspective of a fiscal union. As the analysis of France's own contribution shows (see chapter 4.4), this represents a compromise in favour of the German position and omits aspects and proposals that France otherwise regards as important and that tend more clearly towards a fiscal union.

Among the non-euro states, Denmark's position in particular can be clearly assigned to the stability camp. Romania and Hungary adopt less explicit and less detailed positions, but also lean towards the stability vision. The explanations for this second group of states are similar to those for the core group around Finland, although the non-euro status of Hungary and Romania may mean that the debate is less urgent there and the positions are less explicit.

Altogether, substantial similarities can be identified among the nine states in the stability camp. Almost all of them demand implementation of agreed structural reforms be given priority or even be stepped up. Estonia proposes binding contractual arrangements for these reforms to intensify implementation and ownership. Beyond this, Finland, Estonia and Lithuania call for strict application of the EMU's deficit and debt rules and demand that the associated sanctions not be watered down.

It is noteworthy that – as was to be expected – this group otherwise makes no central demands. The reformed Monetary Union with its present focus on fiscal rules and rule-based, more strictly controlled national structural policies is largely welcomed and regarded as adequate to overcome the crisis and prevent new fragilities. All the states in this group demand full implementation of and compliance with the adopted reforms. If at all, criticism is directed at inadequate implementation of rules and recommended national reforms. Certain member states wish to address this problem that through stronger sanctions and stricter application of the rules.

Aside from these demands, which are largely restricted to two aspects, this camp's contributions are characterised by dismissal of further integration in other areas. Rejection of fiscal integration and a corresponding capacity at European or Eurozone level is a central point for almost all of them. Lithuania, Malta, the Netherlands and – more obliquely – also Denmark and Germany reject this absolutely. Finland regards it as ineffective and unnecessary and sees a chance of it occurring – if at all – only following significant convergence of the member states, while Estonia tends to argue for the alternative of national fiscal shock absorbers.

This camp also rejects any form of mutualisation of debt management in the Monetary Union. Finland goes furthest, demanding reinstatement of the no-bailout rule in the medium term (which would mean dissolution of the ESM), whereas Malta and the Netherlands are satisfied with the current shape of the bailout fund but see absolutely no need to develop or strengthen it. Eurobonds and similar instruments are not discussed at all in some contributions, and are rejected by Estonia, the Netherlands and – if only indirectly – by Denmark and Germany.

The stability union group also rejects any further transfer of responsibilities through closer coordination of economic policies or the inclusion of new areas of potential systemic relevance. Finland, the Netherlands, Denmark are Germany are happy with the present arrangements for the European Semester and resist greater institutionalisation of the Macroeconomic Imbalance Procedure at supranational level (as already exists for the stability and convergence criteria of the Stability and Growth Pact).

As far as the Banking Union is concerned, it is only mentioned at all in a handful of contributions; its present arrangements are apparently taken as given and regarded as adequate. Lithuania discusses the aspect of a European deposit guarantee scheme as part of the Banking Union – but rejects it entirely in line with a stability union vision.

Finally, and in a sense logically on the basis of their limited demands, almost none of these countries argues for any form of supranational democratic legitimisation for the Monetary Union. Finland, Lithuania and Germany emphasise the national parliaments as the proper forums for reforms – which they regard as national responsibilities. Closer integration of the national parliaments, for example in the European Semester, would therefore be welcomed. The German and in particular the Franco-German contribution go further in parts, discussing stronger inclusion of the European Parliament (or a conceivable Eurozone chamber within it) and an expansion of the role of the Eurogroup President.

It is also worth mentioning that many aspects and proposals – some of which have been circulating for years – are not discussed at all by the stability union group. Germany in particular pursues this strategy and concentrates on procedural aspects and generalities. More widely, for example joint debt management is similarly only mentioned at all by three of the countries, the Banking Union and social aspects are found in only a handful of the contributions, and fields of possible economic policy coordination, such as wage policy, are completely omitted. As already mentioned, this is partly a consequence of the underlying theoretical and ideological perspective. It remains unclear to what extent this is also employed as a tactic to prevent certain issues appearing on the agenda in the first place.

It is notable that – behind this camp's apparent unity – distinguishing between long-term and short-term reform options rather alters the picture. Thus the joint Franco-German contribution explicitly discusses only short-term measures, in association with reference to a more comprehensive paper on longer-term reforms that the two countries intended to publish at the end of 2016 (but have so far failed to do). So even if the general thrust and priorities appear set, in the longer term – depending on the orientation of this as yet unwritten document and national elections in both countries in 2017 – there might actually be greater openness to further integration steps.

4.4 THE FISCAL UNION CAMP

In the following we now move on to present the reform ideas of the countries seeking a fiscal union. As already outlined, we can divide this camp into a main group and a sub-group: supporters of an unrestricted fiscal union and supporters of a restricted version. We begin by presenting the countries with the most ambitious proposals for change, proposing that both the present system of economic governance and elements of fiscal integration need to be reformed in order to overcome the Eurozone's susceptibility to crisis. While the countries supporting this position do not deny the validity of prior reforms of the EMU with their focus on budgetary surveillance and structural reforms, they leave no doubt that a deepening of integration is now needed: one that also provides transnational liability options and understands economic policy coordination as a systemic responsibility for the preservation of the currency area, rather than merely using it to enforce pro-competitive structural reforms in the crisis states.

Countries in the sub-group, on the other hand, are only partly committed to the goal of a fiscal union: they either approve of fiscal integration of the Eurozone but regard the present economic governance as adequate or, conversely, are dissatisfied with economic coordination based on budget rules and pro-competitive structural reforms (and wish to see change there) but reject the fiscal perspective of shared liability options. In other words, the countries in the sub-group seek change in just one of the two areas – even if the concrete instruments and institutions they propose (and the associated timeframes and preconditions) certainly vary from state to state.

4.4.1 SUPPORTERS OF A FISCAL UNION WITHOUT RESTRICTIONS

4.4.1.1 Italy

In the Sherpa process Italy was the most determined advocate of comprehensive fiscal union. It regards the steps already taken towards a Banking Union as inadequate to break the vicious circle of bank and state debt, and believes it necessary to complete it by establishing a common fiscal backstop mechanism and a European deposit protection. Although Italy sees the Capital Markets Union project already offering a possibility to distribute adjustment to economic shocks better across the Eurozone, because an integrated capital market would better distribute risks (Italy 2015b: 5), its contributions make it clear that this is not regarded as sufficient. In order to protect the Monetary Union against future crises, the Italian government believes that much further-reaching measures are vital: collective borrowing through Eurozone bonds (Italy 2015a: 3f.) and a fiscal capacity. Gradual implementation is recommended. In the longer term a separate Eurozone budget is proposed, to facilitate an anti-cyclical buffer function. In this connection the question of new own revenue sources for the EU and/or the EMU would then have to be discussed. In the shorter term (and according to the Italian government possible without a treaty revision) a European unemployment insurance scheme is proposed as an automatic stabiliser to cushion asymmetric shocks affecting Eurozone countries: *"A European unemployment benefit scheme would serve as a EU automatic stabilizer, help moderate the economic cycle, tackle asymmetric shock, address distributive issues"* (ibid.: 2). In particular because the EMU seeks (to intensify) an economic convergence process, Italy would like to see the European unemployment insurance implemented rapidly as the first manifestation of a fiscal capacity for supporting convergence efforts: "*It would therefore not be coherent to postpone risk-sharing at the conclusion of the convergence process*" (Italy 2015b: 4).

The Italian negotiators heavily criticise the asymmetry of European economic governance and call for the European Semester to be developed into a governance instrument with an investment function to reduce imbalances: *"Persisting wide imbalances are incompatible with an economic union. The governance structure should facilitate a cooperative rebalancing within the economic area, lacking which adjustment will remain highly asymmetric"* (ibid.: 3). The proposal is for the European Semester to introduce a "policy mix" enabling a distinction to be drawn between short-term needs and medium-term shared political challenges. As well as the member states, demands for action should also be addressed to the EU itself (ibid.: 4). In the longer term, the ESM should serve as a European Monetary Fund for funding investment projects.

Preserving the European social model is central to Italy's demands for a social dimension in the Monetary Union. Its contributions warn of growing social stress caused by the crisis management it criticises. Rome makes no bones that the transformation of European policy from a subjective threat to social security into a bulwark of protection represents a key precondition for all further integration steps. It calls for a focus on the social costs of the Euro crisis and a social component to Union citizenship. Here, Italy argues, the European unemployment insurance scheme could serve as "concrete proof of EU solidarity" (Italy 2015a: 2). The European Youth Guarantee and the Employment Initiative also need to be strengthened, it believes, in order to prevent the emergence of a "lost generation". The member states' tax systems also need to become coherent in order to prevent a race to the bottom.

Italy believes that a political union is required in order to lend democratic legitimacy to the already implemented governance framework of the EMU. The call for better integration of the European Parliament and the national parliaments in the European Semester is therefore central. The democratic responsibility for further-reaching proposals, such as fiscal capacity and Eurobonds, should also be located at the European level (ibid.: 4). Italy argues for the Community method to be used for further reforms and as such implicitly rejects the intergovernmental agreements (outside the EU treaties) that have sometimes been employed. Because at the same time many of the proposed policies would not find the agreement or interest of all the EU member states, the Italian government calls for greater use of enhanced cooperation by the nineteen Euro states, in order to advance coordination of fiscal policies (Italy 2015b: 8).

4.4.1.2 Spain

Spain is also a supporter of fiscal union and presented similar arguments like Italy in the Sherpa process. It would like to see the Banking Union rapidly completed with elements of transnational liability and the establishment of a limited fiscal capacity, initially funded through EU own resources. This would promote the convergence process within the EMU: *"[T]he limited fiscal capacity could be enhanced to create a true Fiscal Union encompassing the three central elements (1) transfer of sovereignty on revenue and expenditure policies to the European level; (2) a common Eurozone budget; (3) common debt instruments"* (Spain 2015b: 8).

Like Italy, Spain is dissatisfied with the scope of the current governance framework and its focus on budgetary aspects: *"The paradox has been that fiscal criteria have been monitored after the creation of the single currency through the Stability and Growth Pact, while no similar treatment has been given to nominal convergence in inflation criteria"* (ibid.: 4). Madrid complains that identified imbalances are inadequately addressed and calls for a simplification of the Macroeconomic Imbalance Procedure by concentrating on current account balances, real effective exchange rates, unit labour costs and inflation rates. Budgetary indicators, it says, are already adequately covered by the Stability and Growth Pact. In relation to surveillance of member states' budgets, Spain calls for the introduction of a golden rule for investment, to permit temporary deviations from the adjustment path of the Stability and Growth Pact. The ESM should be used to finance or guarantee such infrastructure projects (Spain 2015a: 4). Internal spillover effects of structural policies and impacts on the Eurozone's external current account should also be taken into consideration. Spain's most radical demand – unique in the submitted reports – is to amend the statute of the ECB to require it to take account of differences in the real inflation rates of the member states as well as Eurozone price stability in its monetary policy (ibid.: 3f.).

The Spanish contributions also speak of preventing profit-shifting and tax avoidance. Furthermore, alongside the aforementioned fiscal aspects, the European level should also be granted additional powers in labour and employment policy: *"All competences related to labour mobility should be transfered to the European level, including, for example, matters related to social security, unemployment insurance, or professional qualifications"* (Spain 2015b: 8).

Spain also calls for better integration of the European Parliament in the EU's governance framework and argues for deeper integration among the nineteen Eurozone members. In the long term, Spain would like to see the creation of a finance minister post for the Eurozone, who would be responsible for a fiscal capacity and appointed jointly by the European Parliament and the national parliaments. Ultimately he or she should receive the power to sanction nation states (ibid.: 7f.).

4.4.1.3 Portugal

Portugal's contributions also put it clearly in the fiscal union camp. On both the Banking Union and deeper fiscal integration, Portugal argues for transnational risk-sharing. Lisbon argues for the establishment of a fiscal capacity which is funded through EU own resources and financially neutral for the member states. Portugal recommends the European Commission, when considering own resources and the burdens to be borne by the member states, take into account "the different degree to which different social/economic groups benefit from European integration and, particularly, the single currency" (Portugal 2015b: 7). Portugal clearly rejects the belief that the deficits of the Eurozone architecture can be eliminated in the medium term solely through structural reforms and deepening of the Single Market. Portugal's contribution airs the idea of turning the ESM into a European Monetary Fund (Portugal 2015a: 2f.), which could be expanded into a European "Monetary and Fiscal Fund" by introducing a European unemployment insurance scheme (Portugal 2015b: 6). While critical of the inadequate capacity of the EMU to absorb asymmetric shocks, Portugal does not see a fiscal insurance mechanism as the path to greater convergence, but conversely calls for "a greater degree of harmonization between economic policies and institutions of the participating Member States" as its precondition (ibid.).

Here Portugal departs from Italy's and Spain's ideas of rapid implementation of a fiscal capacity. But in relation to their criticisms of economic policy coordination and ideas for reforming it, Lisbon remain on the side of Rome and Madrid. Portugal also believes that coordination of economic policies must not stop at fixed rules for national budgets, but must have as its objective an aggregated and proactive fiscal policy for the euro area: *"[...S]ince we acknowledge that fiscal coordination is a requirement to avoid negative spillovers from bad national decisions, we must conclude that fiscal coordination is also required to explore positive spillovers"* (ibid.: 4).

Characteristically for a proponent of fiscal union, Portugal does not fear the prospect of transferring powers to the European level, but sees this as a necessary requirement of growing European responsibilities. The establishment of a fiscal capacity is thus justified not exclusively in terms of economic rationality for a smoother-functioning EMU, but also politically, in order to avoid the kind of ad hoc transfers required in the most recent crisis because these have always encouraged intergovernmental negotiations operating outside the Community method (Portugal 2015a: 3). Like Italy and Spain, the Portuguese government would like to massively strengthen the Eurogroup through a European Monetary Fund with expanded fiscal capacity in order to create a united fiscal counterpole to the ECB's monetary policy (Portugal 2015b: 7f.).

4.4.1.4 Belgium

Belgium supports the course of the three proponents of a fiscal union already outlined. In its contribution Belgium also calls for completion of the Banking Union and argues for the establishment of a fiscal capacity and an only vaguely described European "treasury function". On implementation, Belgium concurs with Portugal and sees both instruments as plausible objectives only after a real economic and social convergence process of unstated magnitude: *"When all Member States are on a proven and determined path towards the Pact for Stability and Growth's debt reference value, and the necessary degree of economic, social and fiscal convergence has been achieved, a fiscal capacity and a treasury function for the euro area could be envisaged"* (Belgium 2015: 2).

Belgium also calls for sweeping changes in economic governance, proposing a longer-term policy coordination mechanism (as already mentioned as ex-ante-coordination in Article 11 of the Fiscal Compact) (ibid.: 1). Belgium is the only state in the fiscal union camp to call for the introduction of the Common Consolidated Corporate Tax Base (CCCTB) – in first place under the keyword "tax convergence" – in order to fight tax erosion and profit-shifting.

Belgium places high priority on the social dimension of the EMU and calls for the objective of social convergence to be promoted specifically by fighting social dumping, through measures including a "social impact assessment" of the structural reforms, higher common social standards and the modernisation of the national labour markets and social security systems (ibid.: 2).

The Belgian contribution openly admits that the planned integration steps to create a fully-fledged banking, fiscal and economic union naturally require parallel steps towards a political union, which means shared sovereignty (ibid.: 3). One first step could be to improve the integration of the social partners in the European Semester, for which concretely a social dialogue on the annual growth survey is proposed. Belgium criticises the intergovernmental agreements that have become common practice in crisis management (2015: 3). ESM, Fiscal Compact and the Single Resolution Fund (SRF), it argues, need to be quickly integrated into EU law; intergovernmental agreements can only be temporary stopgaps. Instead Belgium calls for the powers of the Interparliamentary Conference under Article 13 of the Fiscal Compact to be expanded beyond the fiscal policy aspects laid out there.

4.4.1.5 Luxembourg

Luxembourg is also clearly among the supporters of a fiscal union. On the question of the Banking Union it goes even further than the demands outlined above and calls for expedited establishment of the SRF for banks, which is not currently planned to be fully functional until 2024. Luxembourg is also the only country to share Italy's euphoria over the benefits of the Capital Markets Union, asserting that it is the central instrument for improving EMU's capacity to absorb shocks: *"To improve the shock absorption capacity in the euro area and beyond, the creation of the Capital markets union must be a priority"* (Luxembourg 2015: 7). Nonetheless, in the long term Luxembourg sees the necessity for a real fiscal capacity with European own resources, and also for joint debt management.

Luxembourg largely shares the criticisms of the European Semester, but focuses its reform proposals less on the European level, calling instead for implementation at national level. Thus in future the Commission should report regularly on progress implementing the Country-specific Recommendations (CSRs). Here Luxembourg borrows from the stability union camp, reminding them of the contractual arrangements that Germany introduced into the reform debate in 2012/13: *"To further incentivize structural reforms, the use of contractual arrangements as discussed in the recent past could be an option"* (ibid.: 8). At the same time, however, unlike the proponents of the stability union, Luxembourg emphasises that the Stability and Growth Pact alone cannot form the basis for reform recommendations. It is as important, it argues, to make full use of the MIP, whose corrective arm has not to date been applied – to the detriment of the credibility of the governance architecture.

This perspective is also clearly visible in Luxembourg's position on the social dimension as a firm component of EMU governance: *"Member states could eventually be asked to make adjustments to their national policies to mitigate to the extent possible negative social consequences without jeopardizing fiscal consolidation and growth-friendly structural reforms"* (ibid.). Like Belgium, Luxembourg also calls for stronger integration of the social partners in the European Semester, and also argues for the European Parliament to be granted a greater say there.

4.4.1.6 Slovenia

Among the Central and Eastern European states, Slovenia is the most vociferous advocate of fiscal integration for the EMU. Its contribution argues for the longer-term development of a transnational risk-sharing mechanism as a central feature moving towards a fiscal union (Slovenia 2015: 2). It argues that a fiscal capacity is required to absorb asymmetric shocks, even if this would open up as yet unclarified questions concerning own resources for the EU and shared debt management (ibid.: 4).

That said, the Slovenian position on reforms of the EMU's economic governance structure is considerably more moderate than those of the countries already discussed. Slovenia is happy with the existing European economic governance framework and believes it to be capable of identifying macroeconomic imbalances in good time. Progress is more needed in the field of closer fiscal cooperation, and new incentives for implementing competitiveness reforms could also be considered. In this connection the new more flexible application of the Stability Pact is explicitly mentioned (ibid.: 2, 5).

Slovenia speaks of a transfer of national powers to the European level not only in connection with a fiscal capacity, but points to potential spill-over processes in other policy fields resulting from strengthened budgetary surveillance: *"Similarly, a strengthened coordination of economic policies and stronger surveillance over national budgets could raise questions regarding the competences in the areas of employment, social policy, taxation, education or health system"* (ibid.: 4). With every step associated with transferring sovereignty to the European level, Slovenia argues, the role of the national parliaments should be explicitly strengthened to safeguard democratic legitimacy (ibid.: 5).

4.4.1.7 Latvia

Latvia also belongs to the fiscal union camp. It remains cautious over a European deposit guarantee scheme under the Banking Union, but does not reject it (Latvia 2015b: 3). Proposals for joint debt management in the Commission Blueprint of 2012 also need to be treated "with extreme caution" (ibid.: 2).

But in the longer perspective the Latvian government clearly calls for the establishment of a fiscal union with its own fiscal capacity, as already spelled out in the Four Presidents' Report of 2012, because the EMU is otherwise powerless in the face of shocks. But the contribution does emphasise the requirement for "strong preconditions and conditionalit[ies], including a closer coordination of the national budgets at EU level" (Latvia 2015a: 2). For Latvia, the EFSI and the Commission's flexible interpretation of the Stability Pact already represent the first steps on the road to fiscal capacity (Latvia 2015b: 2). Like Portugal and Belgium, Latvia sees closer socioeconomic convergence as a precondition for establishing a fiscal capacity. As well as a strengthening of the European and national parliaments, Latvia too would like to see the social partners integrated more closely into the European Semester.

4.4.1.8 France

France stands recognisably in the camp of supporters of a fiscal union, but not as whole-heartedly as those already described. What they share in common is first of all their attention to macroeconomic imbalances and the inadequacy of European coordination and governance powers as an initial cause of the crisis, and the stance that reforms to date represent only a first and insufficient step: *"Nevertheless, while the emphasis on fiscal consolidation in recent years has restored confidence, it has also resulted in weaker growth. Similarly, policy coordination has been strengthened, but remains incomplete and has not led to sufficient growth or economic and social 'reconvergence' within the euro area"* (translated from France 2015: 2).

With respect to the Banking Union, France points out that the already adopted Single Resolution Mechanism has yet to enter into force and lists it under the keyword of transnational "solidarité" (ibid.: 3). All that the later joint Franco-German contribution has to say on this question is that the Banking Union should be completed "as planned" (translated from Germany/France 2015: 2).

Paris states very directly that a EMU orientated on faster and sustainable growth, dynamic investment and employment cannot function without a convergence process of the integrated economies. This rests explicitly on social as well as fiscal policies and represents for the French an indispensable tool for dealing with asymmetric shocks: *"This convergence is a prerequisite for better resilience to shocks and preservation of the European social model"* (translated from France 2015: 3). The joint Franco-German contribution also understands a "real convergence of the Eurozone economies" to mean "establishing a convergence framework for the assessment bases, in particular for corporate taxation", as well as greater transparency and action to combat tax avoidance (translated from Germany/France 2015: 2). Unlike Italy and Spain, the French contribution to the Sherpa process remains very reserved concerning the details of what it regards as necessary processes of convergence and transnational solidarity and merely notes the necessity of examining possible instruments (France 2015: 3). The French approach is even more cautious in its second contribution, submitted jointly with Germany. Here the longer-term reform perspective of the EMU is bracketed out entirely. The fundamental choice between stability union and fiscal union is postponed. Thus the brief joint contribution ends with a call for closer investigation of "the future needs of the Eurozone" (translated from Germany/France 2015: 3): *"Such an investigation should examine in particular the political and institutional framework, the joint instruments and the legal framework that could be relevant in the longer term"* (ibid.). The two governments promised another joint contribution by the end of 2016 which however has not been forthcoming to date.

France positions itself more clearly in relation to the existing economic governance framework. Here Paris joins Rome, Madrid and Lisbon in calling for further development of the European Semester, to lead it away from a one-sided focus on budgetary and competition policies in the individual states. In future, it argues, the need for public investment should be identified and – alongside coordination of national policies – there should also be a response in aggregated form. In its contribution France makes it clear that this means mobilising European instruments and funding (France 2015: 2).

Even if the French negotiators underline the necessity of social convergence, their reference to the "European social model" is not fleshed out. The goal thus remains very general, and can be shared by Germany, which commits to it in their joint contribution. So as the complement to greater competitiveness, both governments emphasise "strengthening the social basis of the Economic and Monetary Union". But in detail the proposals remain unspectacular: supporting mobility of labour, promoting the introduction of minimum wages, and intensifying cooperation in active labour market policy and in the other social security systems (Germany/France 2015: 2). What does, however, become clear is France's interest in the institutionalisation of a sectoral Eurogroup formation of the labour and social ministers (2015: 3). This proposal is also mentioned as an option in the joint contribution with the German government (Germany/France 2015: 3).

Like Italy, Spain and Latvia, France also calls for better integration of the European Parliament and the national parliaments in the governance of the Eurozone; as already mentioned by Belgium, Luxembourg and Latvia, the social partners should also be more closely integrated into the European Semester. Only very cautiously does France (2015: 3) float the idea of improving the efficiency and outcomes of decision-making processes by holding regular Eurozone summits and strengthening the chair and external representation of the Eurogroup. In the joint contribution with Germany, France argues for the establishment of separate Euro structures in the European Parliament (Germany/France 2015: 3).

4.4.2 SUPPORTERS OF A FISCAL UNION WITH RESTRICTIONS

4.4.2.1 Cyprus

Cyprus argues only half-heartedly for a fiscal union, because its government believes that the current governance framework with ESM, Banking Union and budget rules ensures that the Eurozone is able to resist economic shocks. But at the same time aspects for the future of the Eurozone were identified "which were related to the problems of the crisis that still remain to be addressed" (Cyprus 2015: 2). For the Cypriot government these include for example closer coordination of economic policies and the deposit protection in the Banking Union for deposits under €100,000. The establishment of a fiscal union is seen as a possible chance to give the member states incentives to improve their fulfilment of economic policy goals and at the same time to resolve the moral hazard problem: *"Further risk sharing is not warranted at this stage. [...A] further risk sharing in the fiscal realm between member states if examined, should of course be viewed in the context of an appropriate conditionality to address moral hazard problems"* (ibid.: 3).

Cyprus, like Portugal, Belgium and Latvia, demands greater socio-economic convergence as a precondition for establishing a fiscal capacity, understanding this in the first place as the fulfilment of the targets laid out in the European Semester. But Cyprus is open to new institutional arrangements for improving democratic legitimation, for example through better inclusion of the European Parliament and the national parliaments in the European Semester.

4.4.2.2 Slovakia

Like Cyprus, Slovakia also argues for the EMU to be expanded into a fiscal union, but without initially altering the existing policy coordination framework. On the one side, the Slovak government's contributions read as an urgent call to action on fiscal integration: *"It is our view that the economic and monetary union cannot continue to exist in the long term unless fiscal instruments to address asymmetric and pan-European Shocks become part of the EMU framework"* (Slovakia 2015a: 2). As a concrete instrument against asymmetric shocks, Slovakia – like Italy and Portugal – favours a European unemployment insurance scheme. Shocks affecting Europe as a whole should be addressed through a common investment mechanism – not described in any greater detail – whose orientation bears similarities to proposals from France, Italy, Spain and Portugal for greater European bundling of investment support (ibid.: 3).

On the other side the EMU's current governance framework is regarded as adequate. So any broader transnational liability in the Banking Union extending beyond the compromise already reached is rejected, and full application of all instruments available in the European Semester called for. Like Latvia and Cyprus, Slovakia believes that fulfilment of the existing rules in the Eurozone must be a precondition for fiscal capacity. This is also regarded as an opportunity to create a clear incentive for obeying the rules: *"From the point of view of Slovakia, fiscal and economic discipline, including equal and transparent application of SGP and MIP, is a necessary condition for the further deepening of fiscal integration. Consequently, adherence to existing rules [...] could be a criterion for entry into a fiscal union"* (Slovakia 2015b: 2). Alongside stronger action on macroeconomic imbalances, Slovakia argues for better integration of the Europe 2020 strategy in the European Semester.

True to its line on economic questions, however, the Slovak government supports no specific social policies for the Eurozone, because it regards achieving greater economic convergence, potentially also by means of a shock absorber like the European unemployment insurance scheme, as the best way to prevent social hardship. Projects like a common minimum wage or binding social indicators, on the other hand, it believes, can undermine economic convergence targets (ibid.).

Clear deviations from the positions of the majority of countries in the camp of supporters of a fiscal union are found in connection with ideas on political governance. Slovakia decisively opposes separate Euro formats for strengthening fiscal integration and insists that all EU states participate in the decisions. Slovakia also warns against greater involvement of the European Parliament at the expense of the Council and the national parliaments: *"We are cautious about further strengthening the involvement of the European Parliament as it could come at the expense of the Council or the national parliaments"* (ibid.: 3).

4.4.2.3 Croatia

As a non-euro state among the restricted fiscal union camp, Croatia criticises what it sees as the still inadequate functionality of the Banking Union. It is unclear, Croatia asserts, whether the new collective rules will be capable of breaking the vicious circle of financial crisis and fiscal instability. It will depend on the concrete details of the bail-in rules, Croatia argues, whether they will make a positive contribution or in fact exacerbate the problem: *"However, the question is whether the system will, due to some of the new elements, become more prone to crisis"* (Croatia 2015: 2). Croatia criticises the EU's current budget as insufficient to actively counteract asymmetric shocks. In an ideal world the member states would have to completely communitise their economic policies, in order to complete the EMU (ibid.). On the other hand, economic policy coordination supports the existing strict regulatory approach, but must not be allowed to ignore national needs for specific flexibilities. Like many in the stability union camp, however, the Croatian government emphasises the importance of national politics respecting the current governance frameworks. Here strengthened national "ownership" is required, along with "continuous rigorous surveillance through the European semester" (ibid.).

4.4.2.4 Poland

Overall, Poland can also be placed in the fiscal union camp, even though it rejects further integration steps at this juncture: *"In Poland's view it is not necessary to further Europeanise fiscal policy ahead of 2019"* (Poland 2015a: 6). Instead Poland argues in the short and medium term for steps that would generally be associated with the stability union side, and proposes explicitly voluntary but binding agreements to implement priority structural reforms between member states and Commission, of the kind already discussed in 2013 as the Convergence and Competitiveness Instrument (CCI): *"In the short term in order to strengthen the EU economic governance, Poland proposes to improve the functioning of the European Semester and supplement it with a capacity to enter into the voluntary contracts on the structural reforms between the Member States and the European Commission"* (ibid.: 3.; the proposals for modifications to the European Semester are discussed in detail in Poland 2015b). As an incentive mechanism, Poland proposes a "a possibility to fully deduct direct and indirect costs [...] of the agreed reforms when calculating the deficit" under the Stability and Growth Pact (2015b: 4).

But in contradiction to those stances, Poland proposes rapid completion of the Banking Union, including "measures to strengthen fiscal backstop" (2015a: 5). Thus in contrast to the stability union camp, Poland does not reject such a fiscal safety net per se as a transfer and liability union, but regards it as a necessary component of the Banking Union.

It is also conspicuous that Poland – despite its blunt rejection of imminent acute integration leaps – is not only open to a long-term fiscal integration and regards it as desirable, but also sees it preceded by a deeper political integration: *"In the long run such an action [Europeanising fiscal policy] would be desirable provided that […] the level of political integration is increased and some competences in the area of economic and fiscal policy are transferred to the European level"* (ibid.: 6). The function of fiscal integration as a shock absorber is also explicitly emphasised, even if the need for prior political integration is underlined: *"In the long term, the fiscal integration would also increase the effectiveness of adjustment mechanisms to asymmetric shocks in the Eurozone. However it would require an appropriate deepening of political integration"* (ibid.). In other words, Poland currently sees no basis for a fiscal union, but would support it in the longer term as long as it is accompanied by integration in the political and economic realms.

Above and beyond these fundamental views, the Polish contributions also demonstrate a willingness to discuss concrete reform options for a fiscal union and in the longer run propose a fiscal capacity in the form of a "pan-European investment programme" (ibid.) as a further development of the European Fund for Strategic Investments. As the Poles propose, contributions to this would come from the member states and not be included in the fiscal limits of the Fiscal Compact and the Stability and Growth Pact. The new fund would be explicitly positioned as an instrument against asymmetric demand shocks and should be subject to conditionality in the form of structural reforms: *"This programme, primarily addressed to the countries with the largest output gap, would require that its beneficiaries commit themselves to implementing structural reforms (conditionality)"* (ibid.: 3).

Alongside a fiscal capacity, Poland also regards a new crisis management institution as a longer-term necessity: *"Moreover in the medium term Poland suggests initiating a debate on the need to establish a crisis management mechanism in the Eurozone – resembling the Single Resolution Mechanism. This mechanism could set up an efficient decision-making process for adjustment measures to be implemented by the troubled Member State. This would prevent uncontrolled tensions in financial markets and limit the spill-over effects"* (ibid.: 4). Here the contribution explicitly addresses the systemic level of asymmetric crises in the Eurozone and the collective necessity to minimise this spill-over.

4.4.2.5 Ireland

Despite its less unequivocal positioning, Ireland basically also argues for deeper fiscal integration of the Eurozone. Its submitted contributions point out that the EMU is not an optimal currency area, for which further Community institutions would be required (Ireland 2015a: 3). Like many other proponents of a fiscal union, Ireland would also like to see the Banking Union completed as quickly as possible. And in the long term it is correspondingly positive towards a fiscal capacity, although this, it argues, would need to be fiscally neutral over the economic cycle, organised through an automatic insurance mechanism, strictly conditional, and sufficiently generous if it is to achieve an economic Impact. However, Ireland rejects tying successful implementation of structural reforms to access to the means of a reduced version of a fiscal capacity, in the way discussed for example with the Convergence and Competitiveness Instrument (CCI) in 2012/13 and now reintroduced into the debate by Estonia, Luxembourg and Poland. A meaningful fiscal capacity will need to be financially generous, Dublin argues. Ireland also rejects calls for far-reaching automatisation of reform rules through intergovernmental agreements heard from the stability union side and instead proposes individual and political scrutiny of structural reforms: *"Defining reform objectives, assessing their likely overall impact, and measuring progress towards them all require considerable scope for political judgement and case by case assessment"* (Ireland 2015b: 3).

More clearly than any other state, Ireland addresses the unequal treatment of current account surpluses and deficits: *"The MIP needs to be implemented in a way which recognises that excessive current account surpluses and deficits both need to be tackled"* (Ireland 2015a: 2). As such it positions itself in the field of supporters of a fiscal union. Like Belgium, Ireland calls for the powers of the interparliamentary conference under Article 13 of the Fiscal Compact to be expanded, and for the establishment of separate euro structures in the European Parliament.

Nonetheless, Ireland, like the proponents of the stability union, argues that the focus must lie on the "full and effective implementation of existing instruments" (Ireland 2015b: 2). According to the Irish analysis there would not currently be sufficient public support for the larger fiscal reforms that have been identified as necessary, meaning that it would be impossible to carry through the required treaty revisions. The Irish government also openly rejects any harmonisation of tax systems, in line with its traditional position as a Eurozone country with a relatively low level of taxes (Ireland 2015a: 5). Thus, on the whole, it would not appear that concrete rejection of deeper integration cannot per se be derived from the Irish contribution, but such a move is dismissed as unrealistic at the present juncture and therefore not addressed. For these reasons, Ireland ultimately decisively rejects a fiscal capacity (Ireland 2015a, 2015b).

4.4.2.6 Austria

Austria's contributions are even closer to the stability union camp than the countries just addressed, which at least support individual elements of a fiscal union. In relation to economic governance and individual aspects of fiscal integration, however, Austria supports significant integration steps. Thus in the area of the Banking Union it is willing to move towards a Single Resolution Fund on the basis of the ESM, because there would otherwise be no separation between the banking sector and state budgets (Austria 2015: 3). Austria also argues for use of the flexibility inherent to the Stability and Growth Pact and a greater focus on the Europe 2020 strategy: *"There has to be a close link between the European Semester and the broad and well balanced Europe 2020 strategy"* (ibid.: 1). But such a balance would seriously undermine the budget fixation of many in the stability camp. Austria – like the Spanish contributions – also supports measures against profit-shifting and tax avoidance (ibid.: 2), which would contradict the competition paradigm.

In fact, Vienna argues for even more strongly for developing and strengthening the social dimension of the EMU than many of those who argue unreservedly for a fiscal union. Here Austria recalls the Europe 2020 strategy with its diverse policy goals (also of particular relevance to the social dimension) and sees this as the relevant framework for achieving European convergence (ibid.: 1). In future there should be social impact assessments and the European Council should issue an explicit statement on the social situation in the EU and the EMU at its spring meeting. The social dimension of the EMU, Austria argues, has been ignored in the past: *"One of the fundamental goals according to the Treaty is to achieve economic and social progress simultaneously. Social divergence undermines the credibility and acceptance of the European project"* (ibid.: 2).

Despite these clear arguments for moving towards fiscal union, overall Austria demonstrates scepticism towards further integration steps: *"We share the opinion that emphasis should be on the full implementation of the current framework and rules"* (ibid.). In the area of economic policy, Austria emphasises that the member states are "ultimately responsible for deciding on concrete policy measures and instruments within their national sphere of responsibility" (ibid.) and rejects further reforms of the European Semester. Further-reaching integration, which could improve coordination of economic policy from the systemic perspective, is regarded as unnecessary and national policies are – absolutely in line with the stability union camp – held responsible for a state's economic success or failure. A fiscal capacity is mentioned only briefly as a long-term option, and tied to a tightening of fiscal constraints. In this respect, Austria's contribution also warns of constitutional problems: "*Further sharing of sovereignty, however, would pose far reaching constitutional questions*" (Austria 2015: 3).

Altogether the arguments Austria presents for a fiscal union are weak. Nonetheless, its calls for modifications to the Eurozone's economic and social governance framework justify its inclusion in the group arguing at least partially for a fiscal union.

4.4.2.7 Czech Republic

Like Austria, the Czech Republic calls for the Five Presidents' Report to concentrate on short-term measures and the implementation of adopted measures, and to refrain from discussing longer-term and further-reaching reforms: *"We do not propose any new instruments or significant modifications of the current economic governance system"* (Czech Republic 2015a: 2). The Czech government is not in principle a friend of closer fiscal integration of the euro countries and ostensibly supports the rule-based reform perspective of the stability union model.

At the same time, however, the (second) Czech contribution discusses the possibility of a future fiscal capacity for the Eurozone as an example of "certain limits of the current institutional framework of the Economic and Monetary Union" (Czech Republic 2015b: 4) and discusses in depth the preconditions for a possible fiscal capacity: an anti-cyclical design and neutrality of financial flows across the economic cycle; a deterrent function against speculation and contagion effects; reduction of market failure in the bond markets; action to combat unemployment and escalating recessions; and prevention of the accumulation of excessive macroeconomic imbalances as a central task: *"Fiscal capacity cannot serve as a macroeconomic adjustment tool, but must be a preventive part of macroeconomic imbalances, not their resolution tool (especially not repetitive)"* (ibid.: 3).

So although the Czech contribution rejects any further deepening of the Eurozone architecture (at the present juncture), it does name a series of potential advantages of a fiscal capacity and initial ideas about how to shape it. But the government makes it clear that such an instrument can only stand at the end of a long integration process, in which the current economic governance framework transpires to be either useful or ineffective: *"A common fiscal capacity for the eurozone can be executively considered after the current coordination mechanism obtains proper credibility or demonstrates itself to be ineffective. More effort should be devoted to the evaluation of the current mechanisms and to the level-playing field between member states"* (ibid.).

The Czech position is divided with respect to the social dimension of the EMU. In principle the Czech Republic opposes social indicators, because they would water down the MIP. But at the same time it supports impact assessments in the social field, calls for greater effectiveness in the work of the European Social Fund (ESF) and emphasises that structural reforms are not exclusively about price competitiveness and should not lead to a lowering of social and labour protections (ibid.). The Czech Republic also supports better integration of the European and national parliaments and the social partners in the European Semester, and as such argues more with the proponents of a fiscal than a stability union. As a non-euro country the Czech Republic opposes new euro-specific decision-making formats and institutions.

4.5 INTERIM SUMMARY ON THE FISCAL UNION

In the Sherpa process, Italy can be identified as the most prominent supporter of developing the EMU into a fiscal union. Spain, Portugal, Belgium, Luxembourg, Slovenia and Latvia are also clearly in favour of a fiscal union. France must also be included, even if its presented positions are often vaguely formulated and decisive aspects were bracketed out in the context of its joint contribution with Germany. Alongside these eight easily classifiable states, there is a sub-group of countries that only partially support a fiscal union: Cyprus, Slovakia, Ireland and Austria along with the non-euro states Croatia, Poland and the Czech Republic. These seven states support either dropping the dominance of budgetary and competition-driven coordination of economic policy or introducing fiscal integration towards shared liability, but none of them want both together. This sub-group thus exhibits – despite its support for the perspective of a fiscal union – affinity to the model of a stability union. Among the countries considered here, Ireland's position is particularly noteworthy, because it rejects reform of the EMU leading to deeper fiscal integration not for substantive reasons but on the grounds that its realisation is unrealistic, and otherwise shares the arguments of the supporters of unrestricted fiscal union.

So what do the eight countries that unequivocally support a fiscal union share in common? Agreement exists in the group over the causes of the euro crisis. None of the governments casts any doubt in their Sherpa's contributions on the outstanding importance of common budgetary rules for the Eurozone. But the austerity course in crisis management – decisively propagated by Germany – is rejected as counterproductive and assessed as irrelevant to the true causes of the euro crisis. It will not be possible to stem macroeconomic imbalances by means of the accomplished hardening of the Stability and Growth Pact, they say, and affected states can report vividly on the negative consequences of the asymmetric adjustment through internal devaluation. After the sweeping reforms of 2010 to 2014, primarily in the area of budgetary surveillance, they now demand at least the prospect of a second step. This would deviate from the deepening mode seen to date and establish forms of transnational liability.

In most of these countries, there is little understanding as to why the first, still hesitant moves towards a fiscal and political union have to date been implemented so inadequately. This applies in the first place to the Banking Union, whose transnational liability components in the form of the Single Resolution Fund (SRF) and collective deposit protection were kicked down the road above all by Germany. The same also applies to the Macroeconomic Imbalance Procedure, which is oddly asymmetrical and remains a paper tiger that no member state violating targets has any need to fear. Completion of the Banking Union by breaking the vicious circle of bank and sovereign debt can be regarded as a consensual demand in the camp of unrestricted supporters of a fiscal union. Most of these states appear unhappy that full operation of the SRF is not planned until 2024 and demand quicker completion or the application of interim solutions such as using the ESM as a temporary backstop for the fund. The Commission's new project of the Capital Markets Union is broadly welcomed but only Italy and Luxembourg share the optimism that it could reduce the frequency of asymmetric shocks. A consensus is also gelling in the area of economic policy coordination. Here, the overcomplexity of the European Semester is identified as a need for reform. Although most of these states regard the current governance arrangements as sufficient to prevent the worst economic dislocations, they believe that the existing instruments now require fine-tuning. This would apply for example to a more flexible interpretation of the Stability and Growth Pact and to using the MIP on an equal basis like budgetary surveillance. In the longer term the EMU requires a fiscal capacity and enhanced democratic legitimation.

But that already marks the end of the concrete common ground identifiable in the Sherpa reports, in terms of the objective of developing the Monetary Union towards a fiscal union. Italy, Spain and Portugal are the most voluble and demand considerable and extensive modifications to the institutional design of the Eurozone. On some questions they are supported by Belgium, Luxembourg, Slovenia and Latvia. France adopts an odd intermediate position: On the one hand, together with Italy, it leads the supporters of what they regard as a long overdue initiation of moves towards a fiscal union, on the other in the Sherpa process it submits a joint paper with Germany – as a prominent representative of the stability union camp – that largely confirms the status quo ante.

The differences within the fiscal union camp are obvious at several points. The big economies of France, Italy and Spain want to go further than others in reinterpreting the Stability and Growth Pact; at the same time, they want to restrict harmful tax competition and avoidance within the EMU. Together with Poland they call for pan-European investment policies. Many of the smaller states in this group differ, or at least their proposals are qualitatively less far-reaching.

The sub-group of countries expressing restricted support for a fiscal union argues much more cautiously: Cyprus, Slovakia and the Czech Republic do not support the calls for another restructuring of the economic governance framework. Instead they argue for full implementation and observance of the rules already established in the reforms of recent years. Poland would in fact like to expand the rules even further in the stability direction, by demanding the implementation of intergovernmental reform agreements, which is an idea also expressed in the stability union camp. However, Poland, together with Croatia and Austria, also sees a necessity for additional measures to achieve full functionality of the nascent Banking Union.

Although none of the states in the fiscal union camp fundamentally reject the establishment of a fiscal capacity, considerable qualitative differences in their assessments of the benefits can be identified. The countries arguing unreservedly for a fiscal union regard a fiscal capacity as simply indispensable for the functionality of the Monetary Union. In the subgroup this position is shared only by Slovakia and Ireland. On the other hand, the governments of Poland and the Czech Republic see the benefits of a fiscal capacity for containing asymmetric shocks in the Eurozone, but do not regard this as a priority project and would apply strict conditions. But even among the countries that are unreservedly for a fiscal union only Italy and Spain would like to leverage concepts such as a European unemployment insurance scheme as door-openers to a Eurozone budget for achieving socio-economic convergence. Almost all the other states demand there first be a European convergence process, as whose culmination a conditional fiscal capacity could emerge.

While various variants of the fiscal capacity are intensively discussed, the idea of a framework for coordinating wage policy in the Eurozone plays no role at all. And joint debt management in the form of Eurobonds is also mentioned by only a handful of states. Only Italy, Spain, Luxembourg and Slovenia clearly support this proposal. There is now not a tone about the redemption fund, which was still under discussion in 2012.

Little progress can be identified on the aspects of democratic legitimation and the social dimension of the EMU, where the documents from the European institutions on the reform process are generally weak on concrete proposals. Most of the supporters of the fiscal union want to involve the European Parliament and the national parliaments more closely in the European Semester. Countries with corporatist traditions also demand this for the social partners. Advocates of rapid and comprehensive progress towards fiscal union, such as Italy, Spain and Portugal, recognise the necessity of a transfer of sovereignty and the associated legitimation of fiscal policy at the European level. In this they are supported by numerous smaller member states. Despite far-reaching plans for a deepening of fiscal integration, France has little to say on the question of transfer of sovereignty and proposes closer coordination between the euro states. This is supported in different ways by many member states, although there are reservations in Central and Eastern Europe.

Finally, it is exclusively the Western member states that advocate social convergence within the EMU, primarily in terms of preventing social imbalances following structural reforms and crisis management. Apart from lip-service to the social dimension of Europe, however, their concrete proposals for strengthening it are sparse. In this context certain states discuss the automatic stabiliser of a European unemployment insurance scheme and improved integration of the Europe 2020 strategy in the European Semester. Belgium and Austria call for social impact assessments. In a milder form the Eastern European states of Slovakia and the Czech Republic also support more consideration of social aspects in economic policy coordination.

The contributions from Italy, Spain and Portugal in particular communicate hopes for a comprehensive reform process that tackles all the problems of a suboptimally constructed Monetary Union. Their direct experience of the euro crisis and the inadequate and in some respects fatally counterproductive first round of crisis management leads these states to develop very concrete proposals for a fiscal union with well-considered timeframes. They are vexed to find that the plans discussed in 2015 are substantively less advanced than those of 2012. The Italian government is therefore demanding an ambitious report to strengthen the European project: *"The report of the Four Presidents should give the right signal: after the financial 'whatever it takes' by the ECB a political 'whatever it takes' by all Institutions is needed"* (Italy 2015a: 1).

Such a great integration leap and a complete transformation of the institutional framework into a fiscal union will not (for the time being) be possible with the supporters of a restricted fiscal union, but they could certainly agree to individual aspects of the reform programme of the unrestricted fiscal union advocates.

4.6 THE ROLE OF THE EUROPEAN PARLIAMENT

As soon as the Four Presidents' Report was published in 2012, the European Parliament complained in a resolution of its own ("Thyssen Report") that: "*[F]rom a democratic point of view and in the light of all the provisions of the Lisbon Treaty it is unacceptable that the President of the European Parliament, which is composed of elected Members representing more than 502 million European citizens, has not been involved in the drafting of the abovementioned report entitled 'Towards a Genuine Economic and Monetary Union'*" (European Parliament 2012).

That situation initially remained unchanged in 2015: Martin Schulz, as the then-President of the European Parliament, was not included in the inner circle of authors when the reform consultations were restarted. But this time the Parliament inserted itself into the process, in order to avoid leaving the member states, the Commission and the ECB to define the cornerstones of the future EMU on their own. In the Sherpa process the Parliament thus submitted two contributions of its own. In them, in continuity with its 2012 resolution on the topic, the Parliament adopts a clear stance as a supporter of a fiscal union. It initially expresses criticism of the process itself. Many of the questions raised in the Commission's Analytical Note, it says, represent a step back from its Blueprint of 2012, which already included concrete steps towards a fiscal union. While the first contribution focused above all on integrating the European Parliament more closely into the governance processes and conducting all future changes through the ordinary legislative procedure (European Parliament 2015a), the demands in the second contribution are more concrete.

In the second contribution the Parliament joins the fiscal union side in calling for the completion of the Banking Union through deposit protection and a backstop for the SRF, and for the idea of a Capital Markets Union. It sees the necessity for a fiscal capacity but regards its establishment as conditional on a simultaneous deeper integration of the policy coordination mechanisms. A conditional funding instrument within the European budget, based on implementation of structural reforms in the scope of the European Semester, could, it says, represent a first step in this direction. In the shorter term, the Parliament thus in fact positions itself more in the camp of supporters of a stability union. This also becomes clear where its discussion of automatic stabilisers mentions only the member states, and not the European level.

On the other hand, the Parliament is the only participant in the Sherpa process to reintroduce the redemption fund to the debate, although without concretely supporting or opposing it.

In relation to reform of the current economic governance framework, the Parliament in fact goes further than the member states in the fiscal union camp. It calls for convergence guidelines to set shared targets for economic, competition and social policies for the Eurozone, and open to all twenty-eight member states of the EU. Simplifying the European Semester, including more targeted use of the MIP and greater consideration for the investment environment and general economic conditions are demands of the fiscal union camp that the Parliament shares. It also calls for progress on preventing tax evasion and dumping and demands implementation of the CCCTB with a minimum tax rate, if necessary in the scope of a small group of member states: *"If such progress cannot be achieved in the framework of 28 Member States, enhanced cooperation should be implemented"* (European Parliament 2015b: 4). On the social dimension of the EMU, the Parliament proposes a social pact to deepen the coordination of social policies.

The foremost concern for the MEPs is to democratise existing and future coordination processes. The spectrum of proposals here ranges from a division of roles between European Parliament (adoption) and national parliaments (implementation) concerning the introduced convergence guidelines and integration of the Fiscal Compact and the ESM into Community law (with the latter to be developed into a European Monetary Fund) through to rejection both of separate euro structures within the Parliament, and of a possible legislative role for the national parliaments through the inter-parliamentary conference. In these two latter points the Parliament's positions diverge clearly from those of the member states supporting a fiscal union: *"The European Parliament is the Parliament of the euro, as the EMU is established by the Union, whose citizens are directly represented at union level by the EP. Any formal differentiation of parliamentary participation along national lines [...] is incompatible with the Treaties. Any interparliamentary cooperation should not be seen as establishing a new joint parliamentary body"* (ibid.).

It appears to have been worthwhile for the European Parliament to introduce its own reform ideas directly into the preparatory process, to the extent that its then-President Martin Schulz is now named as one of the co-authors, with his name prominently displayed on the cover of what is now not the Four but the Five Presidents' Report.

4.7 THE FINAL FIVE PRESIDENTS' REPORT

Following our analysis in the preceding sections of the Analytical Note that initiated the process and the contributions of the member states and the European Parliament, we now take a closer look at the final report itself.

While a summarising note of 21 April 2015 on the first round of contributions submitted by the member states remained very general and ended with a long catalogue of questions (European Commission 2015a, 2015b), a "Note for Discussions by Sherpas" of 22 May 2015 (European Commission 2015c) already hints at the structure of the upcoming report (see Figure 3). Here we already see signs of the expected search for compromise between stability union and fiscal union for the future EMU. Thus the document relays the demand of the fiscal union camp for completion of the Banking Union along with their call for a mechanism to absorb macroeconomic shocks and for improvements to the European Semester, including moves towards an aggregated fiscal policy and enhanced democratic legitimacy. At the same time however, the stability union advocates also find themselves represented, with the document emphasising in all policy fields the responsibility of individual states, reiterating the need for strict implementation of the existing framework of controls on national fiscal policies, calling for structural reforms and postponing more ambitious reform options to the medium to long term. The combination does not always appear coherent: the economic convergence process championed by the fiscal union camp is described as necessary for the future of the EMU – but as a concession to the stability union side it is to be introduced through competition via "best performances and practices" in the structural reforms. Similarly, the discussion paper emphasises the social dimension of the EMU as "an integral part of the convergence process", but proposes that social cohesion be achieved primarily via more efficient functioning of labour markets (ibid.).

In stark contrast to the Analytical Note, the final report published in June 2015 is a normative document laying out an analytically grounded path that must be taken in order to make the EMU (more) successful. It begins with a stocktaking of the institutional and economic situation of the Eurozone and an analysis of the consequences of membership for economic policy, before presenting the necessary reforms. Altogether the report draws an ambivalent picture, combining facets from both camps, in decisive respects and as an overall product it leans more towards the vision of a stability union (see also Hacker 2015).

On the one side, the report analytically and in principle strongly adopts the perspective of the fiscal union, explains current problems (also) in terms of systemic and structural causes, and calls in response for far-reaching institutional reforms. For instance, it emphasises that for a successful Eurozone the member states must "take steps, both individually and collectively, to compensate for the national adjustment tools they give up on entry" to the Monetary Union (Juncker 2015b: 4). So the document explicitly adopts the structural nature of a Monetary Union with independent states as its analytical perspective and notes the lack of instruments for cushioning and adjustment to shocks as a design problem. Similarly, it points out that the "internal devaluations" currently being undertaken in the Eurozone through wage cuts and other relative price reductions will "never occur as quickly as exchange rate adjustment" and that "market pressures can deprive countries of their fiscal stabilisers", which it says are "essential" in view of the unified monetary policy in order to stabilise the economy against local shocks (ibid.). Here too the crisis-stricken situation of the Eurozone is explained not (only) as the product of poor national policies, but placed in the context of a Community that creates its own consequences and dynamics and alters the effectiveness of various instruments: the single interest rate, it argues, makes hard to rectify macroeconomic imbalances, and without national exchange rates this must lead to severe and protracted crises. Moreover, it says, the remaining instrument of fiscal policy is restricted, because international markets exert considerably greater leverage over the euro states than over countries with their own currency. The problem is summarised – in line with the proponents of a fiscal union – as follows: *"Preventing unsustainable policies and absorbing shocks individually and collectively did not work well before or during the crisis"* (ibid.).

In order for the advantages of the euro to outweigh the drawbacks, they "also need to be able to share the impact of shocks through risk-sharing within the EMU" (ibid.). To that end the report lists four areas where reforms are needed: (1) a "genuine" economic union with effectively coordinated economic, employment and social policies and converging economic structures, where unsustainable national policies are prevented; (2) a financial union that ensures the stability of the euro, including the Banking Union and Capital Markets Union and thus expanding risk-sharing with the private sector; (3) a fiscal union that enables sustainable fiscal policy and fiscal stabilisation; and (4) a political union to strengthen democratic legitimacy and accountability. Alongside more binding economic policy coordination and completion of the Banking Union, the reform process should lead to a fiscal capacity for shock absorption and the associated Eurozone finance ministry.

In its analysis of the Eurozone's crisis and status quo and in its fundamental demands for a European Banking Union and a fiscal capacity complete with a finance ministry for the euro, the Five Presidents' Report thus displays clear leanings towards the fiscal union camp.

But at the same time almost all these proposals are scheduled for the period after July 2017, in a "Stage 2" of EMU completion, for which the details are to follow in a Reflection Paper in May 2017. On the other hand, the steps to be tackled in "Stage 1" from 2015 to 2017 ("deepening by doing"), correspond to a great extent with the perspective of the stability union: more rules for national policies and a focus on (strengthened) implementation of existing rules such as the European Semester. The only exception is the call for completion of the Banking Union, which had in fact been decided in principle before this second round of the reform process. Correspondingly, the Five Presidents' Report calls for the first phase to include bridge financing and a backstop for the Single Resolution Fund as well as a European deposit guarantee scheme (ibid.: 13).

All its other proposals relate to stricter control of assumed bad national policies. In the field of economic policy coordination Juncker and his co-authors call for the establishment of national "fiscal councils" to encourage trade unions and employers to preserve price competitiveness when negotiating pay (ibid.: 9); in the fiscal field, an independent "European Fiscal Board" is to assess whether national public budgets meet previously defined targets (ibid.: 16). Adjustments to shocks and reduction of imbalances should – although criticised as insufficient in the analysis – occur through internal devaluation and in future be cushioned through the establishment of the capital market union (ibid.: 14).

Ultimately, this means that for the period until mid-2017 the reform document remains very close to the ideas of the stability union. Despite being described as important in the analysis and ultimate recommendations, all measures aimed at rectifying systemic problems in the design of the Monetary Union are postponed to a later "Stage 2". Moreover, as already mentioned elsewhere (Hacker 2015), the report demands real economic convergence between the member states as a precondition for a possible fiscal capacity. This will either be impossible, or potentially reduce the number of participating countries to a minimum (a "core Europe").

All in all, the Five Presidents' Report can be characterised as a reform document leaning towards a stability union, even though the perspective of fiscal union dominates rhetorically, analytically and in the longer-term recommendations. This could reflect the Commission in fact supporting the vision of a fiscal union but currently regarding it as impracticable and unpopular, and therefore seeking to postpone the discussion to 2017 and the upcoming reform process it intended to kick-start again through the White Paper on the Future of Europe and the announced Reflection Paper on deepening the Monetary Union.

5

THE EU IN THE CONFLICT BETWEEN FISCAL UNION AND STABILITY UNION

So how should the EU's debate between fiscal union and stability union be judged in the context of the Five Presidents' Report? The following aspects are central here: (1) power relations within the EU and the question of which positions and camps ultimately come out on top and (2) whether this reflects significant variables such as relative GDP or size of population within the EU. Finally, we also venture a glance towards how this status quo will influence the future reform debate and the question of which developments and actors will be central in this context.

Our investigation of the positions of the member states in the half-year preparation and coordination process leading up to publication of the Five Presidents' Report in June 2015 underlines the complexity of the search for a consensus on reforming the EMU. Two main blocks are identifiable, in which the states can be classified on the basis of their demands for changes in the current design of the Eurozone architecture (see Table 2). Starting from their differences over the causes of the crises, the two camps propose new institutions and instruments to be added now or in future and demand or reject corresponding reform steps.

The supporters of a stability union emphasise the responsibility of the member states themselves for a functioning Monetary Union and do not see any need for new Community institutions, aside from a further tightening of surveillance of national state budget and competition policies. This camp comprises nine states: Finland, Estonia, Lithuania, Germany, Malta, the Netherlands and the non-euro countries Denmark, Romania and Hungary. Finland's position can be identified as the most explicitly orientated on the theoretical components of a stability union.

The arguments of the proponents of a fiscal union, on the other hand, seek aggregated policy formats for the Eurozone, because they believe that the economic risks of the Monetary Union can only be addressed transnationally through sharing of financial, fiscal and social risk and liability. This camp comprises Italy, Spain, Portugal, Belgium, Luxembourg, Slovenia, Latvia and France, with Italy clearly advocating the most far-reaching proposals for a fiscal union.

Between these two poles of the debate, however, there is a third group, which supports a fiscal union but whose arguments are more reserved than those of the aforementioned eight. This group's seven members – Cyprus, Slovakia, Ireland, Austria and non-euro Croatia, Poland and the Czech Republic – want either deeper fiscal integration or closer economic policy coordination (extending beyond state debt and competitiveness).

SUMMARY:

- In terms of population and GDP, the Italian-led fiscal union camp is the largest group within the EU and represents a small majority of the Eurozone, even without including the supporters of a restricted fiscal union.
- The Finnish-led stability union camp is the smaller group, and represents a minority in terms of both population and GDP.
- The camps tend to reflect the economic circumstances of their members: states with higher unemployment dominate the fiscal union camp while states with low debt ratios comprise the stability union camp.
- The stability union camp is more united in its demands than the fiscal union supporters.
- The stability camp has clearer positions, seeking to strengthen the existing instruments and rejecting moves beyond the current Eurozone architecture; the advocates of a fiscal union call for further-reaching reforms in respectively different areas with a small lowest common denominator.
- The comparative weakness of the fiscal union camp in combination with the weak positions taken by the European Parliament and the Commission have resulted in the minority position (stability union) heavily influencing the final Five Presidents' Report.

In the analysis of the two identified camps – proponents of a stability union on the one side and advocates of a fiscal union on the other – the relative size of the two groups is of particular relevance (see Figures 4 and 5). In terms of population the fiscal union camp is the largest group with about 39 percent of the EU population, compared with 28 percent

Table 2
Visions for the future of the Eurozone and identified camps in the creation of the Five Presidents' Report.

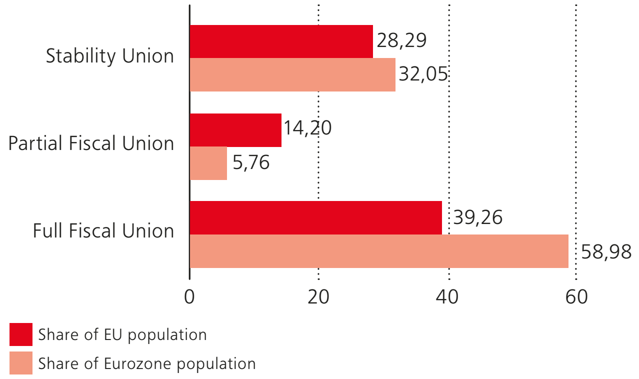
	Stability union	Fiscal union with restrictions	Fiscal union
Euro states	Finland Estonia Lithuania Germany Malta Netherlands	Cyprus Slovakia Ireland Austria	Italy Spain Portugal Belgium Luxembourg Slovenia Latvia France
Non-euro states	Denmark Romania Hungary	Croatia Poland Czech Republic	

Note: The order in the columns represents the intensity of demands. Some countries were not categorised due to missing data (UK, Sweden, Bulgaria, Greece).

Source: authors.

for the stability union. In relation to the Eurozone population alone, the fiscal union camp in fact represents a majority with almost 59 percent.[6] If we add together the countries with restricted and unrestricted visions of a fiscal union, we find that they represent a majority in both contexts, with about 65 percent of the Eurozone population, and 53 percent of the EU population.

Figure 4
Identified reform camps' share of EU and Eurozone population, 2015 in percent



Source: own calculations, AMECO database.

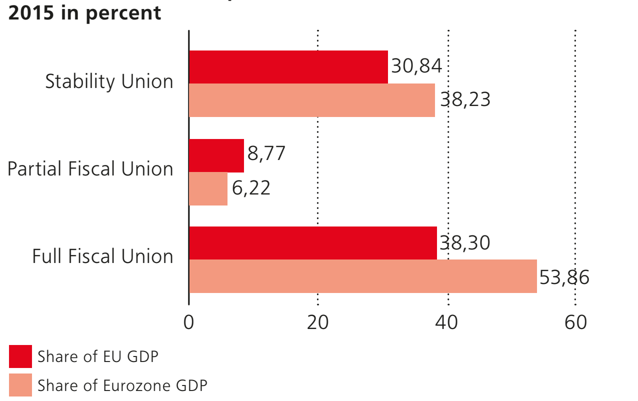
Of course, none of the decisions relating to the future of the Monetary Union will be taken by an EU-wide majority vote, where population size would be relevant.

Nonetheless, this perspective demonstrates that in terms of their elected representatives a majority of the European population at least leans towards developing the EMU into a fiscal union. Only a minority of the represented population adheres to the construction of a stability union, especially when the Eurozone is the reference context.

This observation does not only apply to population. Also in terms of their share of the EU's GDP, the fiscal union supporters remain the largest faction, with about 38 percent compared to almost 30 percent for the stability union camp (see Figure 5). If we include the restricted supporters, the fiscal union share increases to about 47 percent of the EU's GDP. And the relationship is even stronger if we narrow the lens to the share of Eurozone GDP: here the fiscal union camp including restricted supporters represents a majority of about 60 percent of Eurozone GDP, while the stability union camp is in a minority with about 38 percent.[7]

The analysis of the contributions reveals that among the group of reformers – who want to break with the existing repair mode of crisis management and take a new step of fiscal deepening of European integration – the span of variation within the positions is greater than among the proponents of the status quo. As Chapter 4.4 demonstrated, there is not one single clearly defined model for a fiscal union. The spectrum of different instruments, procedures and policies for fiscal integration raised by the member states in the Sherpa process is very broad and draws on the diverse ideas discussed in academia and politics. Many of these are not yet even academically fully mature in all respects and are highly controversial at least in their design, functionality and practicality. This applies for example to a European unemployment insurance scheme, and to Eurobonds and the CCCTB.

Figure 5
Identified reform camps' share of EU and Eurozone GDP, 2015 in percent



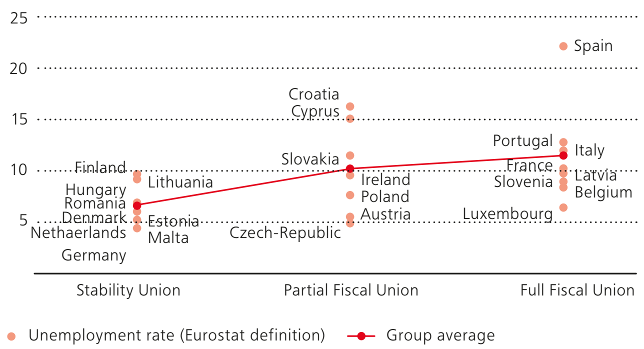
Source: own calculations, AMECO database.

6 The reason for this is principally the exclusion of the United Kingdom, which represents about 17 percent of the EU's total population. As it retains its own currency, it is not included in the figures for the Eurozone.

7 During the analysis, we also investigated different measures to categorise the identified groups, such as the net foreign debt/net foreign wealth and external government debt. However, while surely relevant to the Euro crisis, these fail to better explain our identified groups and do not add substantially to the suggested tendencies apparent from the sets of indicators presented here.

This diversity results in "cherry-picking" by member states. In the imagined fiscal union à la carte some would ideally prefer to pursue great change without delay, with a common Eurozone budget to drive the convergence process, financial transfers between states and a sweeping transfer of powers to Brussels. Others would make this move conditional on greater harmonisation through an improved economic governance process. Others again would first like to see the current governance process of the European Semester brought to maturity. Where one state may see conditionality of new arrangements in all areas as the uppermost concern, while another may regard this as already given. Some states view a focus on social imbalances as central to a fiscal union, while others regard flexibilities in the Stability and Growth Pact as more important. This list of opposites can be continued at will.

Figure 6
Unemployment rate by camp, 2015 in percent



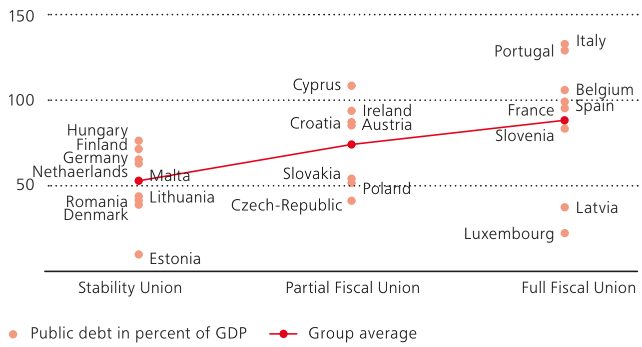
Source: own calculations, AMECO database.

In the absence of agreement as to precisely which instruments and policy proposals belong to a fiscal union, the lowest common denominator in the positioning of the member states appears very small. It comprises the demands to complete the Banking Union, to reduce the complexity of the European Semester and improve its democratic legitimacy, to make better use of the MIP, and prospectively to establish a fiscal capacity, although the model to be used is contested.

In addition, there is a group comprising Poland and a number of smaller countries that only partly share this lowest common denominator. In each case they support only one of the two major policies driving towards fiscal union: fiscal integration or economic policy coordination. These states cannot be fully assigned to the ranks of the fiscal union advocates led by Italy, France and Spain, but could potentially be persuaded to support individual elements of a reform agenda leading away from the vision of a stability union.

In comparison to the rather vague descriptions of the future design of the EMU found among the supporters of a fiscal union, the ranks of the stability union camp appear closed. Indeed, it is in the nature of things that it is easier to achieve consensus between over preserving the status quo than it is to agree on new objectives. An impression of unanimity is also upheld by the stability union supporters' complete silence over existing governance components like the MIP (which only Finland mentions), not to speak of potential future instruments such as joint debt management. The crisis-driven modifications to the Eurozone governance framework that were set in motion between 2010 and 2014 are also discussed by some of these countries as already sufficient – and highly controversial – concessions to the fiscal union side. But apart from the asymmetrical and ineffective MIP and the incomplete Banking Union, the reforms in their entirety have contributed to consolidating the character of the Eurozone as a primarily stability-orientated entity. So the advocates of stability have no reason to seek any further comprehensive reforms, especially not with the objective of watering down individual national responsibility. These convictions are also reflected in political processes within states: Many countries with stability vision find themselves exposed to Eurosceptic parties and movements that specifically reject further financial integration in the Eurozone and flatly reject any form of mutualisation as transfers to economically less successful member states. From this perspective the EMU is increasingly assuming the traits of a transfer union in which states that live beyond their means have to be kept alive at the expense of the citizens of the more successful states.

Figure 7
Public debt by camp, 2015 in percent of GDP



Source: own calculations, AMECO database.

On the other hand, those who are dissatisfied with the existing crisis management course, and had perhaps hoped from the outset that austerity and stability policies would be followed by a second step to fiscal integration, demand reforms to the architecture of the EMU. It comes as no surprise to find the crisis states of the past five years in the fiscal union camp, where some of them are among the most vehement (see Figures 6 and 7).

Nonetheless, experience of crisis falls short as the explanation for positioning on the future of the EMU, given that countries like Belgium, Luxembourg and Latvia argue for a fiscal union but exhibit in some cases lower unemployment rates and debt levels than the leading advocate of the stability union, Finland. There is, however, a clear pattern to the statistics on unemployment and public debt: the proponents of the stability union are in the main at the lower end of the spectrum for both.

For this there are, as outlined in chapter 3, two diametrically opposed explanations. From the perspective of the stability camp these countries have "done their homework" and pursue solid and stability-orientated economic policies that are paying off. Other countries in a worse situation have failed to keep their public budgets and unit labour costs under control and lack the degree of labour market flexibility required to succeed in the Monetary Union. If on the other hand, one adopts the perspective of the fiscal union, the position of the "stability countries" results more from the present construction of the Monetary Union: these countries profit from the status quo, and were not the victims of the systemic problems and discrepancies that resulted from the unfinished and asymmetric form of the EMU. They were neither the destination for the escalating flood of capital and the associated credit boom before the crisis, nor did they suffer to the same degree from the subsequent recession, yet they had to pursue a pro-cyclical fiscal policy without being able to draw on the means of a European fiscal capacity as compensation.

It would exceed the scope here to go into a detailed discussion of the extent to which the different political and media interpretations of the economic situation of the stability union camp contribute to the legitimacy and influence of the respective countries. Nonetheless, it stands out that the camp representing a majority of the Eurozone's population and GDP (and indeed a majority of the EU as a whole) failed to assert its interests in the final Five Presidents' Report.

The analysis of the Sherpa process reveals a number of explanatory factors for this. Lack of clarity on the details of instruments and the absence of visible coordination between the member states on the concrete implementation of a fiscal union could go some way to explaining why an identified majority position failed to assert itself and the Five Presidents' Report instead leans towards stability. The division of the fiscal union camp into unrestricted and restricted supporters of a move away from the present status quo was also unhelpful for the profile of this group. Nonetheless it remains unclear why the European institutions did not tip the scales further towards fiscal union. After all, it is widely believed that both the European Parliament and the Commission are enthusiastic advocates of an extensive fiscal union model. But is that actually the case?

If we examine the European Parliament's contributions to the Sherpa process (see Chapter 4.6), they clearly contain an argument "in dubio pro" fiscal union, in line with earlier resolutions. But when it comes to concretising the major instruments for fiscal integration the Parliament remains as vague as the individual countries: A fiscal capacity is required, but only with simultaneous intensification of policy coordination. A smaller financing instrument would be a good start, but the associated conditionality of successfully implemented structural reforms rather resembles the Convergence and Competitiveness Instrument (CCI) introduced by stability union advocate Germany. Automatic stabilisers are described as helpful for overcoming crises, but no word on the European level. Apart from the innovative idea of convergence guidelines the problem for the European Parliament is the same as for the states in the fiscal union camp: On the spectrum from pure fiscal union through to almost stability union, many demands are made but without a political process turning this into a viable whole.

And the European Commission? Did it not commit to the fiscal union in its 2012 Blueprint, where it proposed a clear timetable for fiscal integration, which was even to lead to a political union? Italy, along with other representatives of the fiscal union camp, complains that the Analytical Note creates an impression that its authors wanted to restart the whole process, even though the aspects to be discussed had already in fact been settled and published (Italy 2015b: 1). One must remember that the current Commission President Jean-Claude Juncker participated (as President of the Eurogroup) in preparing the Four Presidents' Report in 2011/12 and witnessed first hand how the member states argued over the best reform path for the Eurozone before, during and after the 2012 December summit (Hacker 2013). The outcome back then was no more than unspecific requests to review, which were subsequently extended and expanded several times until the process ran out of steam. In the 2014 European elections Juncker floated the prospect of restarting the reform process: *"A fourth priority for me will be to continue with the reform of our monetary union, and to do so with Europe's social dimension in mind"* (Juncker 2014a). As a candidate for the office of Commission President he stated in his "Political Guidelines", published to coincide with the opening of the plenary session of the European Parliament on 15 July 2014, that he wanted to advance the reform of the EMU on the basis of the reports published in 2012. At that point it was already obvious that Juncker was seeking a balance between the stability and fiscal perspectives. The initiatives of his first year in office, he said, would include "a stability-oriented review of the 'six-pack' and the 'two-pack legislation'" and "proposals to encourage further structural reforms" but also "additional financial incentives and a targeted fiscal capacity at Eurozone level" (Juncker 2014b: 8).

As elected Commission President, Juncker succeeded in the first half of 2015 in reviving the reform debate in a very cautious manner that kept the interests of stability and fiscal union advocates in balance. But the price of involving the governments of all the member states in the preparations for the Five Presidents' Report was the loss of a clear commitment to a fiscal union. After its concessions to the two theoretical and political camps identified here, the academic, political and media impact of the Five Presidents' Report was weak in comparison to the debates of 2012. Sebastian Dullien (2015) sums it up in his verdict: "A couple of good ideas are not yet a strategy."

In the German discourse on the reform plan, the greatest controversy arose around the proposal for national councils for monitoring competitiveness. No wonder, given that in the preparatory consultations no state had made such a proposal. Perhaps the Commission therefore thought it pushing on an open door. But because its intention – within a reform plan arguing partly towards stability and partly towards fiscal union – remained unclear however, the idea of the fiscal councils found widely differing interpretations. While a chance to compensate current account imbalances through European macro-policy was recognised (Flassbeck/Spieker 2015), many observers saw this approach of wage policy coordination as a definite turn towards a stability union with lower wages as a central instrument of competition (Häring 2015). The brusque and unanimous rejection of the fiscal councils by the German employers' organisations and trade unions (Kaufmann/Sauer 2015) (citing the constitutional right to collective bargaining) may have buried this initiative, but in June 2016 the Council of Finance Ministers agreed instead on so-called "national productivity councils" with weaker rights of intervention, to supply expertise relating to productivity-improving reforms (ECOFIN 2016b).

6

CONCLUSIONS AND OUTLOOK

Our study reveals the lines of conflict affecting efforts to reform the Eurozone. As the central divide in the debate we identify fundamental differences between member states over the ultimate objective of the Monetary Union. A relatively coherent group around Finland and Germany would like to repair the existing status quo of the EMU in light of the lessons learned in the euro crisis, but in principle preserving the perspective of a stability union, while a rather less clearly defined group led by Italy and France sees the lesson of the crisis as an essential shift towards a fiscal union (see Figure 8, overleaf).

SUMMARY:

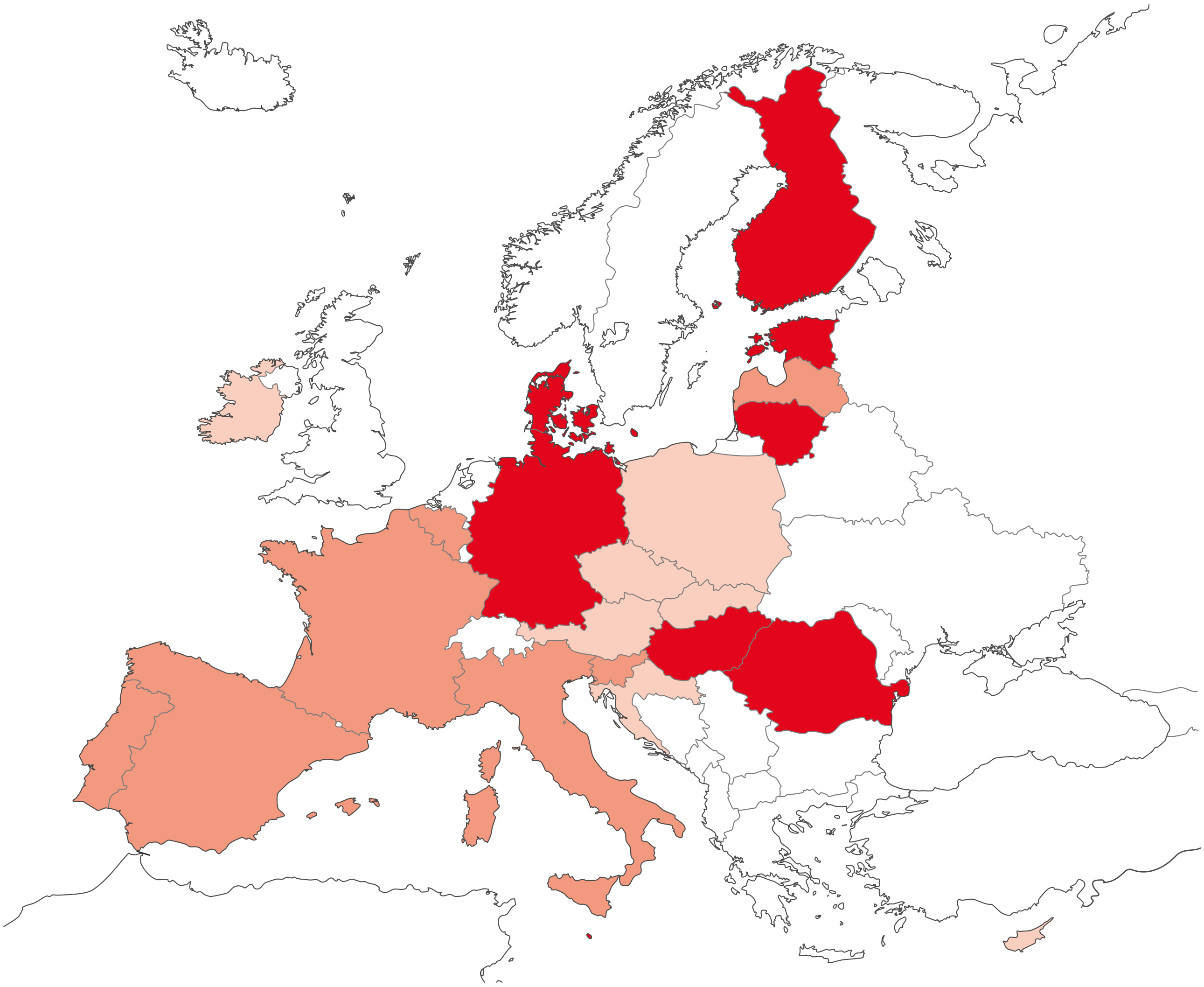
- The euro crisis has reopened a fundamental pre-existing conflict over the correct balance between a rule-based free market and political intervention.
- Its essence is the debate between the member states over reforming the Eurozone towards a stability union or a fiscal union.
- A united and economically successful group led by Finland and Germany would like to see only minimal changes to the Monetary Union as it exists today, while a less united and economically troubled group led by Italy and France calls for more radical fiscal and political integration.
- In the absence of a clear decision for one or other perspective, the reform debate drags on without leading to any sustainable compromise, as was the case with the Banking Union.
- France's often fickle position will be decisive for the future balance of power on this issue. Its presidential elections occur around the time of the announced Commission Reflection Paper on deepening the Monetary Union, due in May 2017.

The conflict between budgetary and competitions aiming to secure stability on the one side and fiscal integration with elements of transnational liability on the other is anything but new. In the background lie two fundamentally different economic paradigms for the role of the state and the markets, which in the European discourse become additionally charged with specific national experiences, traditions and institutional circumstances. Whether the EMU should strive for a stability or a fiscal union was already the fundamental conflict during its founding phase in the late 1980s and early 1990s. The discursive dominance of the stability union during that period led only to papering over of differences with the fiscal union camp; the Stability and Growth Pact, to name but one prominent example, did little to spur economic growth, but clamped down heavily on national budgets.

The euro crisis has brought the old paradigmatic conflict over the ideal balance of rule-based free markets and political intervention back to the fore. With the fronts ideologically hardened – even within the machinery of politics – there is no opening for a fundamental analysis and stocktaking of the deficits of the Maastricht Eurozone architecture. One attempt in 2012 failed, when far-reaching timetables for a comprehensive restructuring of the EMU with a clearly implied recommendation for fiscal and political integration prepared by the European institutions were torn up amidst disagreements between the member states (Hacker 2013). At that point it was already apparent how different the perspectives are from which the reasons for the euro crisis are analysed: where one side saw glaring political failures in obeying the rules at the level of the member states, the other regarded the crisis as proof of the systemic infirmity and incompleteness of the Monetary Union.

In the second attempt to arrive at a consensual reform plan in 2015, in which the member states were closely involved from the outset, our study also finds a persistent conflict between stability and fiscal union. The following subconflicts emerge in the Sherpa process preceding the Five Presidents' Report: the distinction between short- and long-term reform perspectives; the question of conditionality and incentives; demands for and rejection of European governance extending beyond the economic core. But most of these aspects can be attributed to the overarching division into two paradigmatic visions for the Eurozone. The surprise here is that the two political heavyweights Germany and France, which are generally regarded as representatives of the two opposing

Figure 8
Europe divided – the Eurozone reform camps, 2015



These states favour reform of the Eurozone…
- towards a stability union
- towards a fiscal union
- towards a fiscal union with restrictions

Note: Stability union: Finland, Estonia, Lithuania, Germany, Malta, the Netherlands, Denmark, Romania, Hungary. Fiscal union: Italy, Spain, Portugal, Belgium, Luxembourg, Slovenia, Latvia, France. Fiscal union with restrictions: Cyprus, Slovakia, Croatia, Poland, Ireland, Austria, Czech Republic. No data available for UK, SWE, GRE, BUL.

Source: authors, Mapchart.net.

economic paradigms and as spokespersons of the associated integration perspectives (Brunnermeier et al. 2016), are by no means their most prominent respective advocates. For the stability union it is the Finnish government that formulates the clearest and most far-reaching demands in the process investigated here, for the fiscal union the Italian government.

The analysis identifies advantages for the stability union camp that can explain why that perspective has been able to assert a stronger place in the Five Presidents' Report than was the case in the reports published in 2012. The stability union supporters are more united, they have a visible and economically detailed perspective and the countries represented by these governments are conspicuously economically prosperous. Their disadvantage is that they essentially want nothing new and – through the pre-2014 crisis reforms – have largely been able to implement their programme. So whenever the reform debate re-emerges they are automatically on the defensive. The stability camp is also relatively weak in terms of the share of population and GDP its governments represent. But to date the fiscal union camp has benefited neither from its relative strength in terms of share of population and GDP nor from the – albeit fickle – support of the European institutions. Too vague is the precise detail of the desired fiscal union, too diverse the proposed instruments, institutions and procedures, and too fractured the camp into thematic subgroups that rob it of the strength of unity. The core of the camp pushing for a fiscal union consists largely of states that have been hard hit by the crisis, whose European negotiating positions are weakened by their high unemployment and state debt, but whose economic suffering also serves as an argument for the necessity of a reform of the Eurozone.

Of course, the analysis laid out here represents only a snapshot of the member states' stated opinions, whose half-life can fall rapidly with every national election. This was seen in the case of the change of government in Poland after the elections of October 2015. The new national conservative Law and Justice Party government of Prime Minister Beata Szydło is considerably more critical of European integration than her liberal/conservative predecessor Ewa Kopacz. Although Polish Foreign Minister Witold Waszczykowski in a guest commentary for the *Frankfurter Allgemeine Zeitung* assures that the criticisms are aimed above all at political integration and the perspective of a European "superstate", the fundamental openness to strengthening fiscal integration implicit in the previous government's Sherpa reports is now severely curtailed by a stability-driven defensiveness: *"We do not resist ideas seeking to strengthen the Eurozone with respect to its financial stability and resilience to external economic shocks. But these measures should not lead – even indirectly – to deeper political integration through the establishment of separate legal and institutional frameworks for the Economic and Monetary Union (a separate chamber of the European Parliament for the Eurozone states, a separate Eurozone budget, a Eurozone finance minister). Nor can the answer to inadequacies in the functioning of the Eurozone lie in deeper integration of the social dimension. Protection of a high standard of living must not be permitted to harm the EU's competitiveness*" (translated from Waszczykowski 2016).

However, a change of government need not necessarily lead to a change in perspective concerning the ideal form for the Monetary Union. This is demonstrated by the documents of the Portuguese government of conservative Prime Minister Pedro Passos Coelho, which differ little from those of his socialist successor in their substantive analysis of the euro crisis and demands for a new architecture for the Monetary Union. In a joint declaration with his Greek counterpart Alexis Tsipras, Antonio Costa, who has led a left-wing minority government since the Portuguese elections in October 2015 – declares their shared desire for "closer political, fiscal and social integration" with the goal of "democratic Eurozone Governance" (Costa/Tsipras 2016: 3f.). Costa criticises the macroeconomic mismanagement of euro crisis through the dogma of austerity, more clearly than his conservative predecessor, but in the question of medium-term reform of the EMU no distinction can be found from the line towards fiscal union already adopted by Coelho. The same applies to identifying the reasons for the euro crisis: *"We underline that the ongoing Eurozone crisis has its origins into the hitherto asymmetric process of European integration, as well as into the design flaws of the Eurozone – notably the lack of the adequate instruments to face the shocks experienced"* (ibid.: 2).[8]

The Eurozone reform project will remain a moving target on account of changes of government, but also changing European and national discourses. For example the French government under President François Hollande now argues less determinedly for expanding the EMU into a fiscal union than it did in 2012. Probably under the pressure of poor economic data and rising public protests, including growing support for the anti-European Front National, France appears to be losing interest in deeper fiscal integration. Instead, the joint Sherpa contribution with Germany demonstrates a gradual shift towards the German stability perspective.[9] But if France were to change sides, that would put an abrupt end to the political feasibility of a fiscal union. Already today, France's vacillation contributes to the weakness of the fiscal union camp, whose demands are asserted most vocally by the states that have been directly affected by the euro crisis. Only in unison with France did Italy acquire the strength to assert its far-reaching reform positions for the EMU architecture within the EU. In 2012 the two succeeded in launching the European Banking Union against the interests of the stability union side. But if France's commitment to further instruments remains vague or completely absent, that may have been the last move towards fiscal union for the time being.

Correspondingly, the debate over the assessment of the Five Presidents' Report and any ensuing measures has already dragged out for a year and a half without the member states reaching any agreement. Again and again the heads of state and government have taken a full discussion on EMU reform off the agenda of the European Council. Of course new integration questions have emerged since the report appeared. As the Eurozone crisis has abated, the questions of how best to deal with refugees and migration in the EU, counter-terrorism, and Brexit have been uppermost since autumn 2015. Suddenly, with Dublin, Schengen and Brexit, European arrangements of a quite different order of magnitude than the Eurozone are up for discussion.

The European Commission is nevertheless seeking to advance the debate over the future of the EMU. In autumn 2015 it published a Recommendation for member states to establish national competition councils to oversee wage policy and a Decision to establish a European Fiscal Board to advise on aggregated evaluations of national budget policies, along with Communications on the Banking Union, on external representation of the euro area in international organisations and on further steps to reform the Eurozone. On top of these come an Action Plan on Building a Capital Markets Union and a broad-based consultation on a "European pillar of social rights". At the same time the Commission has launched a series of expert debates and conferences on the individual aspects of reform. In March 2017, the Commission President Juncker's White Paper on the Future of Europe formally restarted a broad

8 The support for a fiscal union expressed in Coelho's government's Sherpa reports appears inconsistent with Portugal's simultaneous strict observance of a course of austerity, for which Coelho was repeatedly praised by German Chancellor Angela Merkel, but rejected by the voters.

9 The Banque de France takes a quite different position, with its President François Villeroy de Galhau arguing very determinedly for fiscal integration through close policy coordination and a finance minister for the euro: *"While moving towards further integration, the Minister could be given the authority to manage a euro area Convergence Fund, evolving in three stages towards a euro area budget"* (De Galhau 2016: 1). Former French Economy Minister Emmanuel Macron argues similarly (Sueddeutsche 2015).

reform debate on competing visions for the EU, wherein a separate Reflection Paper on the deepening of Monetary Union was announced for May 2017 and member states are invited to draw first conclusions on the future course at the European Council in December 2017.

In the field of short-term moves not necessarily requiring outside approval, the Commission has already achieved successes with the "deepening by doing" announced in the Five Presidents' Report (Juncker 2015b: 5). The European Semester has been streamlined, especially in relation to the country-specific recommendations and the MIP; future macroeconomic adjustment programmes are to include a social impact assessment (as already implemented for Greece): and the SGP will now be applied with greater flexibility and consideration for the economic situation of the affected states. Further-reaching projects of broader scope, however, are not only more time-consuming, but also highly controversial among the European actors. This even applies to the long-planned completion of the Banking Union. Its second pillar, the Single Resolution Mechanism, remains incomplete because of ECOFIN's failure to agree a backstop mechanism. And the talks over a European deposit guarantee as the third pillar of the Banking Union have been kicked into the long grass and are to be conducted via an intergovernmental agreement, which unlike the Council will require unanimity of the member states (ECOFIN 2016a). In essence the question here is the preference for risk minimisation through national rules and market discipline on the one side and transnational liability principles and market corrections on the other.

This granular level of problems illustrates very well the fragility of the entire project of reforming the Eurozone architecture. As long as there is no clear fundamental decision by the member states to move towards fiscal union or stability union, Juncker will achieve nothing with a reduced version of the 2012 programme either. The situation has been made even more complex by the Brexit question. In theory both a boost for deeper integration of a group of the "willing" and a clear distancing from "more Europe" would be plausible responses to the British referendum result. The consequences for Eurozone reform are currently unforeseeable.

Regardless of Brexit, without a fundamental choice by the Euro states to pursue a fiscal or a stability union, the Commission's Reflection Paper on deepening the EMU – due in May 2017, shortly before the presidential and parliamentary elections in France and Germany – will remain nothing more than a rehashing of existing reform documents about whose implementation the member states – whether in the camp of the stability or the fiscal union – would not have to waste a single thought. A large and at its margins undefined group of states that lack economic success and seek a fiscal union faces off with a small group of relatively prosperous countries with little desire to change the design of the EMU: those are neither sustainable conditions for an essentially unchanged status quo nor for a successful reform compromise. It is more likely that the division of the Eurozone (and the EU as a whole) will deepen along the line already identified here, the division already visible in acute crisis management. While many member states in the fiscal union camp have had enough of market-driven, rule-based individual responsibility, there is growing frustration in the stability union camp over unfulfilled promises. On both sides this could boost demands for a retrenchment of the Eurozone and thus undermine the foundations of the entire reform discussion: the willingness of the member states to remain together in an integrated economic and monetary area despite their different ideas.

List of Figures and Tables

References

Alesina, A./Barro, Robert J. (2002): Currency Unions. Quarterly Journal of Economics, May 2002, 409–436.

Andor, Lázló (2013): Developing the Social Dimension of a Deep and Genuine Economic and Monetary Union, EPC Policy Brief, September 2013.

Andor, Lázló (2014): Basic European Unemployment Insurance – The Best Way Forward in Strengthening the EMU's Resilience and Europe's Recovery. Intereconomics 49(4): 184–203.

Auf dem Brincke, Anna/Enderlein, Henrik/Fritz-Vannahme, Joachim (2015): What Kind of Convergence Does the Euro Area Need? Bertelsmann-Stiftung and Jacques Delors-Institut: Gütersloh/Berlin.

Armstrong, Kenneth A. (2012): EU Social Policy and the Governance Architecture of Europe 2020. Transfer 18(3): 285–300.

Barro, Robert J./Gordon, David B. (1983). Rules, Discretion and Reputation in a Model of Monetary Policy, NBER Working Paper Series1079. http://www.nber.org/papers/w1079.pdf.

Beetsma, Roel M.J.W./Bovenberg, A. Lans (1998): Monetary Union Without Fiscal Coordination May Discipline Policymakers. Journal of International Economics 45:239–258.

Bofinger, Peter (2012): Zurück zur D-Mark? Deutschland braucht den Euro. Droemer: Munich.

Brüderle, Rainer (2010): Ist eine europäische Wirtschaftsregierung eine sinnvolle Option? Ifo Schnelldienst 14/2010.

Brunnermeier, Markus K./James, Harold/Landau, Jean-Pierre (2016): The Euro and the Battle of Ideas. Princeton University Press: Princeton.

Buiter, Willem H. (2006): The "Sense and Nonsense of Maastricht" Revisited: What Have We Learnt about Stabilization in EMU? Journal of Common Market Studies 44(4): 687–710.

Bundesbank (2010). Zur Problematik makroökonomischer Ungleichgewichte im Euro-Raum. Monatsbericht Juli 2010,17–40.

Bundesregierung (2013): Presse- und Informationsamt: France and Germany – Together for a Stronger Europe of Stability and Growth, press release 187/13, 30 May 2013.

Busch, Klaus (1994): Europäische Integration und Tarifpolitik – Lohnpolitische Konsequenzen der Wirtschafts- und Währungsunion. Bund-Verlag: Cologne.

Busch, Klaus/Hermann, Christoph/Hinrichs, Karl/Schulten, Thorsten (2012): Eurokrise, Austeritätspolitik und das Europäische Sozialmodell: Wie die Krisenpolitik in Südeuropa die soziale Dimension der EU bedroht. Friedrich-Ebert-Stiftung: Bonn/Berlin, November 2012.

Busemeyer, Marius/Kellermann, Christian/Petring,Alexander/Stuchlik, Andrej (2006): Politische Positionen zum Europäischen Wirtschafts- und Sozialmodell – eine Landkarte der Interessen. Friedrich-Ebert-Stiftung: Bonn/Berlin.

Collignon, Stefan (2014): Political Lessons from the Economics of the Euro-crisis. In Rodrigues, Maria João/Xiarchogiannopoulou, Eleni (eds.): The Eurozone Crisis and the Transformation of EU Governance: Internal and External Implications, 85–106. Ashgate: Farnham.

Committee for the Study of Economic and Monetary Union (1989): Report on Economic and Monetary Union in the European Community. 17 April 1989.

Costa, Antonio/Tsipras, Alexis (2016): Joint Statement of the Prime Ministers of Greece and Portugal, 11 April 2016. http://www.portugal.gov.pt/media/18946718/20160411-pm-pm-grecia-dec-ingles.pdf.

Dauderstädt, Michael (2014): Konvergenz in der Krise: Europas gefährdete Integration. Friedrich-Ebert-Stiftung: Bonn/Berlin, September 2014.

De Galhau, François Villeroy (2016): Europe at a Crossroads: How to Achieve Efficient Economic Governance in the Euro Area? (Banque de France). Bruegel website, 22 March 2016. http://bruegel.org/wp-content/uploads/2016/03/Speech-F.-Villeroy-Bruegel-22032016.pdf.

De Grauwe, Paul (2006): What Have We Learnt about Monetary Integration since the Maastricht Treaty? Journal of Common Market Studies 44(4): 711–730.

De Grauwe, Paul (2012): In Search of Symmetry in the Eurozone, CEPS Policy Brief 268, May 2012.

De Grauwe, Paul (2013): The Political Economy of the Euro. Annual Review of Political Science 16:153–170.

De Grauwe, Paul (2015): Design Failures of the Eurozone. VoxEU, 7 September 2015.

De Grauwe, Paul (2016): Economics of Monetary Union, 11th ed., Oxford University Press: Oxford.

De Grauwe, Paul/Ji, Yuemei (2016): How to Reboot the Eurozone and Ensure its Long-term Survival. In Baldwin, Richard/Giavazzi, Francesco (eds.): How to Fix Europe's Monetary Union: Views of Leading Economists, 137–150. VoxEU.org eBook. http://www.voxeu.org/sites/default/files/file/epub/rebooting2_upload.pdf.

Delpla, Jacques/von Weizsäcker, Jakob (2011): Eurobonds: Das Blue-Bond-Konzept und seine Implikationen. Friedrich-Ebert-Stiftung: Bonn/Berlin, June 2011.

De Soto, Jésus Huerta (2012): Die Verteidigung des Euro: ein österreichischer Ansatz; mit einer Kritik der Fehler der EZB und des Interventionismus aus Brüssel. Ordo: Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft 63: 21–44.

Draghi, Mario (2016): Introductory Statement to the Press Conference (with Q&A), together with Vítor Constâncio, 21 January 2016. https://www.ecb.europa.eu/press/pressconf/2016/html/is160121.en.html.

Dufresne, Anne (2015): The Trade Union Response to the European Economic Governance Regime: Transnational Mobilization and Wage Coordination. Transfer 21(2): 141–156.

Dullien, Sebastian (2014): The Macroeconomic Stabilisation Impact of a European Basic Unemployment Insurance Scheme. Intereconomics 49(4), July/August 2014, 184–203.

Dullien, Sebastian (2015): Ein paar gute Ideen ergeben noch keine sinnvolle Strategie. Wirtschaftsdienst 95(9): 588–591.

Dyson, Kenneth/Featherstone, Kevin (1999). The Road to Maastricht: Negotiating Economic and Monetary Union. Oxford: University Press.

ECOFIN (2016a): Council Conclusions on a Roadmap to Complete the Banking Union. Press release 353/16, 17 June 2016. http://www.consilium.europa.eu/en/press/press-releases/2016/06/17-conclusions-on-banking-union/

ECOFIN (2016b): Recommendation for a Council Recommendation on the Establishment of National Productivity Boards. http://data.consilium.europa.eu/doc/document/ST-10083-2016-INIT/en/pdf

Eichengreen, Barry (1991): Is Europe an Optimum Currency Area? NBER Working Papers Series 3579, January 1991.

Enderlein, Henrik (2005): One Size Fits None, Central Banking 16(1), August 2005.

Enderlein, Henrik/Guttenberg, Lucas/Spiess, Jann (2013): A Blueprint for a Cyclical Shock Insurance in the Euro Area, Jacques Delors Institute Note Europe. Paris, September 2013.

Eurogroup (2016): Eurogroup Statement on Greece, Press Release 277/16, 25 May 2016.

European Commission (2015a): Preparing for Next Steps on Better Economic Governance in the Euro Area: Overview of contributions by Member States and the European Parliament: Note for Discussion by Sherpas. 21 April 2015. https://ec.europa.eu/priorities/sites/beta-political/files/note_for_discussion_by_Sherpas_-_overview_en.pdf

European Commission (2015b): Report on Preparing for Next Steps on Better Economic Governance in the Euro Area: Questions for Sherpas Ahead of the Meeting on 27 April 2015.

European Commission (2015c): Note for Discussions by Sherpas. Next Steps on Better Economic Governance in the Euro Area: Draft Outline. 22 May 2015.

European Commission (1977): Report of the Study Group on the Role of Public Finance in European Integration, Vol. I: General Report, Brussels, April 1977.

European Parliament (2012): European Parliament Resolution of 20 November 2012 with Recommendations to the Commission on the Report of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup "Towards a Genuine Economic and Monetary Union". 2012/2151(INI). http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0430+0+DOC+XML+V0//EN

European Council (2012): European Council Conclusions. 13–14 December 2012, EUCO 205/12.

Feld, L./Schmidt, C./Schnabel, I./Wieland, V. (2016): Maastricht 2.0: Safeguarding the Future of the Eurozone. In R. Baldwin and F. Giavazzi (eds): How to Fix Europe's Monetary Union, VoxEU ebook. http://www.voxeu.org/content/how-fix-europe-smonetary-union-views-leading-economists

Franz, Wolfgang/Fuest, Clemens/Hellwig, Martin/Sinn, Hans-Werner (2010). A Euro Rescue Plan. CESifo Forum 2:101–104.

Flassbeck, Heiner/Lapavitsas, Costas (2015): Nur Deutschland kann den Euro retten: Der letzte Akt beginnt, Westend: Frankfurt/Main.

Flassbeck, Heiner/Spieker, Friederike (2015): Kommission: Nationale Ausschüsse zur Beurteilung der Wettbewerbsfähigkeit einrichten – DGB protestiert schnell und scharf. flassbeck-economics, 29 October 2015. https://makroskop.eu/2015/10/eu-kommission-nationale-ausschuesse-zur-beurteilung-der-wettbewerbsfaehigkeit-einrichten-dgb-protestiert-schnell-und-scharf/

Friedman, Thomas (1999): The Lexus and the Olive Tree. New York: Farrar, Straus Giroux.

Gnath, Katharina/Haas, Jörg (2015): A Fiscal Union for Europe – Building Block and not a Magic Bullet. spotlight Europe, Bertelsmann-Stiftung/Jacques Delors-Institut Berlin, October 2015.

Hacker, Björn (2013): On the Way to a Fiscal or a Stability Union? The Plans for a »Genuine« Economic and Monetary Union. Friedrich-Ebert-Stiftung: Bonn/Berlin

Hacker, Björn (2015): Die Zukunft der Eurozone: Der Fünf-Präsidenten-Bericht orientiert sich an Schäubles Stabilitätsunion, Friedrich-Ebert-Stiftung: Bonn/Berlin.

Hall, Peter. A./Soskice, David (2001): Varieties of Capitalism: The Institutional Foundations of Comparative Advantage. Oxford: University Press.

Häring, Norbert (2015). Warum der DGB Recht hat und Flassbeck-Spiecker irren. 3 November 2015. http://norberthaering.de/de/27-german/news/493-flassbeck-wettbewerb-2#weiterlesen

Heise, Arne (2015): Governance without Government or: The Euro Crisis and What Went Wrong with European Economic Governance? In Brunkhorst, Hauke/Gaitanides, Charlotte/Panther, Stephan (eds.), Europe at a Crossroad: From Currency Union to Political and Economic Governance? 155–176. Nomos: Baden-Baden.

Helleiner, Eric (2005): The Evolution of the International Monetary and Financial System. In Ravenhill, John (ed.). Global Political Economy, 151–175. Oxford, New York: Oxford University Press.

Herr, Hansjörg (2012): Europa vor einem verlorenen Jahrzehnt: Wege aus der Stagnation. Friedrich-Ebert-Stiftung, March 2012.

Horn, Gustav/Gechert, Sebastian/Herzog-Stein, Alexander/Rannenberg, Ansgar/Rietzler, Katja/Tober, Silke (2015): Wirtschaftspolitische Herausforderungen 2015: Wirtschaftspolitik unter Zwängen. IMK Report 102, January 2015.

Jabko, Nicolas (2015): The Elusive Economic Government and the Forgotten Fiscal Union. In Matthijs, Matthias/Blyth, Mark (eds.), The Future of the Euro, 70–89. Oxford University Press: Oxford.

Juncker, Jean-Claude (2014a). My Priorities. http://juncker.epp.eu/node/151

Juncker, Jean-Claude (2014b). A New Start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change: Political Guidelines for the Next European Commission. Opening Statement in the European Parliament Plenary Session, 15 July 2014.

Juncker, Jean-Claude (2015a). Preparing for Next Steps on better Economic Governance in the Euro Area. Analytical Note, 12 February 2015. https://ec.europa.eu/priorities/sites/beta-political/files/analytical_note_en.pdf

Juncker, Jean-Claude (2015b). The Five Presidents' Report: Completing Europe's Economic and Monetary Union. 22 June 2015. https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf

Kaufmann, Stephan/Sauer, Stefan (2015): Gewerkschaften gegen "Wettbewerbsräte". Frankfurter Rundschau Online, 1 November 2015.r: http://www.fr-online.de/arbeit---soziales/eu-gewerkschaften-gegen--wettbewerbsraete-,1473632,32306944.html

Kenen, Peter B. (1969): The Theory of Optimum Currency Areas: An Eclectic View. In Mundell, Robert A./Swoboda, Alexander K. (eds.), Monetary Problems of the International Economics, 41–60. University of Chicago Press: Chicago.

Keynes, John M. (2009 [1936]): Allgemeine Theorie der Beschäftigung, des Zinses und des Geldes, 11th ed. Duncker & Humblot: Berlin.

Kösters, Wim/Beckmann, Rainer/Hebler, Martin (2001): Elemente der ökonomischen Integrationstheorie. In Loth, Wilfried (Wessels, Wolfgang (eds.), Theorien europäischer Integration, 35–81. Leske und Budrich: Opladen.

Kydland, Finn E./Prescott, Edward C. (1977). Rules Rather than Discretion: The Inconsistency of Optimal Plans. Journal of Political Economy 85(3): 473–492.

Legrain, Philippe (2015): The Berlin Bulldozer and the Sack of Athens. Foreign Policy, 13 July 2015.

Lierse, Hanna (2010): The Evolution of the European Economic Governance System: Monetary and Business Tax Cooperation from a Discursive Institutionalist Perspective. Nomos: Baden-Baden.

Lindner, Fabian/Soemer, Nicolas/Theobald, Thomas (2014): Chancen und Risiken der Europäischen Bankenunion, IMK Policy Brief. May 2014.

Lipgens, Walter (ed.) (1986): 45 Jahre Ringen um die Europäische Verfassung: Dokumente 1939-1984: Von den Schriften der Widerstandsbewegung bis zum Vertragsentwurf des Europäischen Parlaments. Europa Union Verlag: Bonn.

Marglin, Stephen A./Schor, Juliet B. (1992): The Golden Age of Capitalism: Reinterpreting the Postwar Experience. Oxford University Press: Oxford.

McKinnon, Ronald I. (1963): Optimum Currency Areas. American Economic Review 53:717–725.

McNamara, Kathleen R. (2015): The Forgotten Problem of Embeddedness: History Lessons for the Euro. In Matthijs, Matthias/Blyth, Mark (eds.), The Future of the Euro, 21–43. Oxford University Press: Oxford.

Merler, Sylvia (2015). Squaring the Cycle: Financial Cycles, Capital Flows and Macroprudential Policy in the Euro Area, Bruegel Working Paper 2015/14.

Münchau, Wolfgang (2016): Four Signs Another Eurozone Financial Crisis Is Looming. Financal Times, 15 February 2016.

Mundell, Robert A. (1961): A Theory of Optimum Currency Areas.American Economic Review 51:657–665.

Neuerer, Dietmar (2016): Ein Milliardengrab für Deutschland. Handelsblatt Online, 25 May 2016., http://www.handelsblatt.com/politik/deutschland/griechenland-rettung-ein-milliardengrab-fuer-deutschland/13643022.html

Padoa-Schioppa, T. (1982): Capital Mobility: Why Is the Treaty Not Implemented? In Padoa-Schioppa, T. (1994), The Road to Monetary Union in Europe. Oxford: Clarendon Press.

Pisani-Ferry, Jean (2006): Only One Bed for Two Dreams: A Critical Retrospective on the Debate over the Economic Governance of the Euro Area. Journal of Common Market Studies 44 (4): 823–844.

Pisani-Ferry, Jean/Vihriälä, Erkki/Wolff, Guntram (2013): Options for a Euro-area Fiscal Capacity, Bruegel Policy Contribution. January 2013.

Pusch, Toralf (2011): Lohnpolitische Koordinierung in der Eurozone: Ein belastbares Konzept für mehr makroökonomische Stabilität? Friedrich-Ebert-Stiftung: Berlin.

Rose, Andrew K./Wincoop, Eric van (2001): National Money as a Barrier to International Trade: The Real Case for Currency Union. American Economic Review 91(2): 386–-390.

Sachverständigenrat (2012): Nach dem EU-Gipfel: Zeit für langfristige Lösungen nutzen: Sondergutachten gemäß § 6 Absatz 2 Satz 1 des Gesetzes über die Bildung eines Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Entwicklung. 12 July 2012.

Scharpf, Fritz W. (1997): Economic Integration, Democracy and the Welfare State. Journal of European Public Policy 4(1): 18–36.

Schieritz, Mark (2016): Das Ablenkungsmanöver. Zeit Online, 25 May 2016. http://www.zeit.de/wirtschaft/2016-05/griechenland-sparziele-schuldenstreit-prioritaeten

Schulmeister, Stephan (2013): Realkapitalismus und Finanzkapitalismus – zwei „Spielanordnungen" und zwei Phasen des „langen Zyklus". In Kromphardt, Jürgen (ed.): Weiterentwicklung der Keynes'schen Theorie und empirische Analysen, Schriften der Keynes-Gesellschaft, vol 7. Metropolis: Marburg.

Sievert, O. (1992): Geld, das man nicht selbst herstellen kann: Ein ordnungspolitisches Plädoyer für die Währungsunion. Frankfurter Allgemeine Zeitung, 26 September 1992; reproduced in Bofinger, P./Collignon, S./Lipp., E.-M. (eds.), Währungsunion oder Währungschaos?, 13–24. 1993. Wiesbaden: Gabler.

Sinn, Hans-Werner (2010): Neuer Pakt für Europa, Wirtschaftswoche, no. 15, 12 April 2010, 43. Accessed 25 April 2016, https://www.cesifo-group.de/de/ifoHome/policy/Viewpoints/Standpunkte-Archiv/stp-2010/Ifo-Viewpoint-No--113--How-to-Save-the-Euro.html

Speyer, Bernhard (2012): Banking Union: Germany on the Brakes. Deutsche Bank Research: German Policy Watch, 20 September 2012.

Stark, Jürgen (2015). The Historical and Cultural Differences that Divide Europe's Union. Financial Times, 11 February 2015. https://next.ft.com/content/e08ec622-ad28-11e4-a5c1-00144feab7de

Sueddeutsche (2015): Refondons l'Europe, Interview mit Emmanuel Macron. Süddeutsche online, 31 August 2015. http://international.sueddeutsche.de/post/128026249890/refondons-leurope

Waszczykowski, Witold (2016): Mit der Hand auf dem Herzen. Frankfurter Allgemeine Zeitung, 08 April 2016. http://www.faz.net/aktuell/politik/die-gegenwart/zerfaellt-europa-6-mit-der-hand-auf-dem-herzen-14158580.html?printPagedArticle=true#pageIndex_2

Young, Brigitte (2014): Ordoliberalismus – Neoliberalismus – Laissez-faire-Liberalismus. In Wullweber, J. et al. (eds.), Theorien der Internationalen Politischen Ökonomie. Wiesbaden: Springer VS.

References for Sherpa contributions

Austria (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Austria. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Belgium (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Belgium. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Croatia (2015). Contributions from the Sherpas of the Member States to the Five Presidents' Report: Croatia. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Cyprus (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Cyprus. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Czech Republic (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Czech Republic. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Czech Republic (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Czech Republic. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Denmark (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Denmark. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

European Parliament (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: European Parliament. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

European Parliament (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: European Parliament. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Estonia (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Estonia. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Finland (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Finland. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Finland (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Finland. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

France (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: France. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Germany (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Germany. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Germany/France (2015): Deutsch-französischer Beitrag zur wirtschafts- und Währungsunion: Deutschland – Frankreich. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Hungary (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Hungary. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Hungary (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Hungary. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Italy (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Italy. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Italy (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Italy. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Ireland (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Ireland. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en

Ireland (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Ireland. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Latvia (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Latvia. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Latvia (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Latvia. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Lithuania (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Lithuania. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Luxembourg (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Luxemburg. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Malta (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Malta. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Malta (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Malta. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Netherlands (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Netherlands. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Netherlands (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Netherlands. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Poland (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Poland. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Poland (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Poland. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Portugal (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Portugal. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Portugal (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Portugal. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Romania (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Romania. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Slovakia (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Slovakia. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Slovakia (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Slovakia. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Slovenia (2015): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Slovenia. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Spain (2015a): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Spain. First Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en

Spain (2015b): Contributions from the Sherpas of the Member States to the Five Presidents' Report: Spain. Second Contribution. http://ec.europa.eu/priorities/publications/contributions-Sherpas-member-states-and-european-parliament-five-presidents-report_en.

Imprint:

Friedrich-Ebert-Stiftung
Publisher: FES-Europabüro
Rue du Taciturne 38 / B-1000 Bruxelles
Fax +32 22 34 62 81, www.fes-europe.eu
Orders/contact: fes@fes-europe.eu

ISBN: 978-3-95861-796-4

Cover photo: picture alliance/Daniel Kalker
Design: www.stetzer.net
Layout: www.zumweissenroessl.de

FRIEDRICH
EBERT
STIFTUNG

www.fes.de/de/politik-fuer-europa-2017-plus/