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REFORMING THE EUROZONE: ASSESSMENT OF THE REFORM PACKAGE BY THE EUROPEAN COMMISSION – TREATING SYMPTOMS OR ROOT CAUSES?

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ABSTRACT. The paper studies the reform package proposed by the European Commission on 6 December 2017. First, institutional and economic implications of the reform proposal are analysed. The paper finds that some proposals are beyond the present Treaty provisions. For instance, the proposal of a fiscal capacity does not tackle the economic root causes without a supranational transfer mechanism. In fact, the proposed budget neutrality over the medium-term is unfeasible due to cross-country heterogeneity in the Eurozone. At the end, the paper develops policy conclusions.

Keywords: EMU, reform, European Monetary Fund, economic governance.

Introduction

The European integration process started more than 60 years ago. Nevertheless, in 2017, the Commission presented a series of new white papers on the future of Europe in order to tackle the Brexit vote and the growing European populism (Hobolt, 2016; Rittberger & Blauberger, 2018; Calliess, 2018). Nonetheless, the major challenge is the redesign and stabilization of the Economic and Monetary Union (EMU) (Zimmermann, 2016; Warren, 2018). Since 1 January 1999, we have a common currency responsible for 340 million Europeans in now 19 Member States of the Euro area. The Eurozone has been undoubtedly the boldest integration step.

Right from the beginning, the Eurozone had several institutional flaws, one such example being the asymmetric nature of interest rate shocks, aligned with the imposed budget constraints on fiscal policy. Other flaws are low commitment to satisfy the Maastricht criteria or the enforcement of the rules such as the Stability and Growth Pact (Herzog & Hengstermann, 2013; Herzog, 2016). In the aftermath of the European sovereign debt crisis policy-makers started to overhaul the Eurozone's institutions. Among others, European policy-makers established the European Semester in 2011, the Fiscal Compact in 2012, the

Six- & Two-Pack in 2013 and the Banking Union in 2014. As a result, the euro area architecture is more resilient today, but still remains incomplete (COM 2017/821).

Recently, the Commission reopened the reform discussion again in order to reshape the EMU, as expressed in recent reports, such as the "Five Presidents' Report" as of 2015 and notably "The Reflection Paper on the Deepening of the Economic and Monetary Union" in 2017 (Juncker et al., 2015; Dombrovskis & Moscovici, 2017; COM 2017/291). Finally, on 6 December 2017 the Commission presented a full reform package (see Table 1). Similar to Blanchard et al. (2017), the Commission proposes the creation of a fiscal capacity aiming to facilitate large asymmetric shocks across the Member States.

The Commission argues that currently there is both an economic and political reform window due to robust economic growth, the most positive economic sentiments since 2000, the lowest unemployment rate since 2008, and the highest popular support for the euro currency since 2002 (COM 2017/821). The reform package builds on the vision of president Juncker's State of the Union address (Juncker, 2017). In general, the heads of the States agree there is a need for further progress, as concluded during the European Council meeting on 20 October 2017. Nonetheless, the Member States have different, sometimes even orthogonal, visions for the future of the Eurozone.

This is a rather long-lasting controversy. Different visions have been prevalent since the Treaty of Maastricht. Already in the 1990s, some argued for the immediate need of a political union before the establishment of a currency union. Unfortunately, due to political resistance, policy-makers designed the monetary union without a political union first. In doing so, they argued that a monetary union – sooner, rather than later – automatically creates economic and political convergence. The Commission promotes this notion recurrently by demanding an "ever closer union" since the EU Solemn Declaration as of 19 June 1983. Interestingly, advocates of the second notion – the so-called "convergence theory" – disdain the prerequisite of a political union. Indeed, these people emphasize that sovereignty is a matter of Member States, particularly in fiscal, economic and social policies.

As known from history, the precondition for a stable monetary union needs both a transfer of sovereignty and a common (cultural) identity (Bordo & Jonung, 1999). Recent research show that the EU is far from perfect in this respect. In fact, the EU is distancing itself from becoming a culturally and politically homogenous entity. Alesina et al. (2017, p. 16) conclude: "During the last 30 years there is virtually no evidence of cultural convergence, neither within, nor across countries". This is surprising, given that the EU devotes considerable efforts and funds to obtain an "ever closer union". Furthermore, the sovereign debt crisis revealed that the Member States are unwilling to shift responsibility and sovereignty to the European level. Instead, they only agreed upon new rules under the notion of the rule-based architecture.

The Commission concludes that opinions about the reform package may differ, but there is broad consensus on the need for further progress. Nonetheless, it is an odd perspective by the Commission in demanding merely more centralization (Genschel & Jachtenfuchs, 2016; Miller, 2017; Scholten, 2017). The Commission believes that "the European dimension of decision-making [is bringing it] closer to citizens" (COM 2017/821, p. 3). Even if the proposals create greater ownership of collective decisions, the Commission neglects the long-standing insights of fiscal federalism, particularly, the difficulties of overlapping competencies (Oates, 1972, Fossum & Jachtenfuchs, 2017). Thus, the Eurozone challenges will not cease until the Member States either surrender sovereignty, or fully commit to an automatic and independent rule-based architecture (Herzog & Hengstermann, 2013).

In this paper, I study the long-run impact of the reform package proposed by the Commission. I distinguish between transformative proposals, which imply minor adjustments, and disruptive proposals that are new in nature (Table 1). The paper establishes a detailed economic and institutional assessment of the disruptive reform elements. The contribution to

the literature is twofold: first, I analyse the proposed fiscal capacity at the EMU level by investigating the feasibility and hypothetical implications of fiscal transfers across the Member States. Here, I utilize a simulation methodology. Second, I combine the numerical part with a behavioural study of polite-economic and institutional incentives in order to show blemishes of the proposed reform package, including the fiscal backstop, the convergence facility and the European minister of economy and finance.

Table 1. Commissions Reform Package, 6 December 2017

Transformative proposals convert exisiting mechanisms in European Union law	Disruptive proposals create new functions
Treaty on Stability, Coordination and Governance (TSCG)	Convergence Facility
Reform Delivery Tool + Technical Support Tool	Fiscal Backstop
Common Provisions Regulation and Strutural Reform Support Programm	Fiscal Capacity
	European Monetary Fund (EMF)
	European Minister of Economy and Finance

Source: *own categorization.*

The paper is structured as follows. Section 1 summarizes the related literature. The methodology is briefly described in section 2. Section 3 studies the institutional aspects of the reform package. In section 4, I quantitatively simulate the impact of a fiscal capacity. Thereafter, I analyse legal and economic impairments of the reform package in section 5. Finally, section 6 concludes the paper.

1. Literature review

This article relates to at least three strands of literature. First, the literature of the optimal currency area theory. This literature provides early ideas in order to mitigate economic imbalances in a currency union. Mundell (1961) suggested free markets, particularly labour mobility. McKinnon (1963) and Kenen (1969), however, believed in centralized fiscal mechanisms. More recently, similarly to Mundell, Herzog and Hengstermann (2013) proposed a rule-based architecture that automatically imitates market mechanisms in order to stabilize the Eurozone. On the other hand, the Commission (2017) proposes a fiscal capacity or a finance minister following the notions of McKinnon and Kenen (cf. section 3). First, this literature reveals that the Eurozone is not an optimal currency union today. Second, the theory is undecided about the future institutional reforms in order to create a stable Eurozone.

Second, there is a comprehensive literature about the negative effects in a currency union due to free riding and moral hazard. Beetsma and Bovenberg (1999, 2000, 2003) and Beetsma and Uhlig (1999) show that binding fiscal rules are essential in order to mitigate fiscal profligacy and respective negative externalities. These arguments are supported by studies on historical monetary unions (Bordo & Jonung, 1999). Despite theoretical and empirical support for this literature, the Commission's reform package does not sufficiently consider the negative effects, as we will explore in this paper too.

The third field of literature is a long-standing debate about the cost and benefit of a fiscal union. Already Delors (1989) emphasized the need of fiscal coordination in a monetary union. Indeed, already the definition of a fiscal union is difficult. Issing, the former ECB chief economist, defines a fiscal union as follows (2013, p. 173):

"The term [fiscal union] can only be meant to mean a state or a state-like body, in which, according to democratic rules, taxes, levies and public expenditures are uniformly decided. The "Europeanization" of the decision-making (...) makes it clear that there can be no fiscal union without a political union."

Moreover, he emphasises that scientists and policy-makers use the term «fiscal union» frequently dishonestly and manipulative. Even a transfer union is a part of a fiscal union (Issing 2013). Recently Blanchard (2017), Brunnermeier et al. (2017) and Bénassy-Quéré et al. (2018) propose further fiscal union mechanisms that are leading to a transfer union in the end. The ideas are European Safe Bonds (ESBies) or a fiscal capacity at the union level. Werning (2017) provides theoretical support for those mechanisms and the benefits of a fiscal union. However, at the same time, there exists research showing the risks of a fiscal union as well as the ineffectiveness of fiscal transfers in the Eurozone (Kehoe & Patorino 2017, Martinez-Garcia 2017, Bandeira 2018). They demonstrate that a fiscal union is unnecessary and costly, unless policy-makers establish a political union as prevalent in sovereign states.

In this paper, we investigate the proposed disruptive ideas, particularly the implications of a fiscal capacity. The hypotheses are twofold. At first: Does a fiscal capacity under a neutral budget constraint have sufficient feasibility to stabilize asymmetric shocks? Or, does it create moral hazard and insufficient stabilization? Second, what are the economic, sociological and philosophical concerns of the proposed European mechanisms? In answering these research questions, we obtain new evidence for a successful reform strategy in order to convert the rule-based Eurozone in to an optimum currency area. In addition, this research setup allows us to evaluate also other recent proposals by Blanchard (2017) and Bénassy-Quéré et al. (2018).

2. Methodological Approach

The paper uses two different methodological approaches. First, we apply institutional economic methods, together with theories from sociology and philosophy, in order to study the incentive structure of the reform proposal (North, 1991, Sandel, 2012).

The economic literature argues that the EMU has deprived Member States of monetary and exchange rate instruments. Consequently, for macroeconomic management only fiscal policy remains at the national level. Since the Eurozone is not an optimal currency area, the ECB's one-size-fits-all policy produces asymmetric impulses to the economies (Mundell, 1961, 1973, McKinnon, 1963, Bénassy-Quéré et al. 2018). In order to compensate Member States for the loss of monetary policy, the Commission proposes a fiscal capacity as a new instrument.

Secondly we study whether this proposal satisfy economic principles and tackles the economic root cause such as the economic heterogeneity in the Eurozone. We utilize a numerical simulation technique in order to study the feasibility of a fiscal capacity under the proposed constraints. The simulation supposes that a fiscal capacity already existed for all Eurozone Member States from 1999 to 2017. Then, under this assumption, we study the necessary financial contributions of Member States in order to mitigate country-specific asymmetric shocks. This simulation study reveals the limitations of a fiscal capacity in general, given sovereignty of Member States remains at the national level as proposed by the Commission. The details of the numerical computation is explored in equations (1) to (3) below. The combined application of this methodological approach is novel in this field of literature, particularly the analysis of the fiscal capacity.

3. Institutional Aspects of the Reform Package

On 6 December 2017, the Commission set out a "roadmap" for the completion of the Economic and Monetary Union by 2025. The transition period is divided into an immediate phase lasting until 2019 along with a second phase lasting until 2025. The greater agenda is to complete the "Financial Union", "Fiscal Union" and "Economic Union" under the roof of the EU(-Commission). The reform package is mainly concerned with the "Fiscal Union" along with new mechanisms such as a "European Monetary Fund", which includes a fiscal capacity that smooth asymmetric shocks across Eurozone countries. In addition, the proposal strives to enhance economic governance on the one hand and democratic accountability on the other hand.

In general, the Commission follows Jean Monnet's functionalist approach of path dependency and calls for further centralization (Wallace 1990, Rosamond 2000). Since the early 1990s, the majority of scientists have agreed that a well-functioning monetary union requires, in one way or another, fiscal coordination. However, policy-makers naïvely built the Eurozone on neither automatic rule-based coordination nor a political union. In fact, in recent years the Maastricht architecture is steadily revised towards a mixture of responsibilities, defined by national and supranational mechanisms. The 2017-reform package of the Commission deliberately argues for the centralization of powers despite growing political and public resistance.[1]

In any case, without sufficient democratic control and political integration, a transition of a monetary union into a state-like body would be unprecedented. Nonetheless, the notion of supra-nationalisation is the «default mode» of European integration, however leading into uncharted territory (Scharpf, 2011, Schout, 2017). A simplified notion of integration is a risky strategy, given that a currency union must be both economically and culturally homogeneous (Alesina et al. 2017). Up until today, the rule-based architecture of Maastricht entailed fiscal responsibilities merely at the national level (Herzog & Hengstermann, 2013).

What does the Commissions' reform package newly suggest?

Treaty on Stability, Coordination and Governance (TSCG)

The Commission publishes the details of the TSCG in two separate documents: the motivation on the one hand (COM 2017/824) and the Council Directive under the consultation procedure on the other (CNS 2017/0335). This proposal intends to integrate the intergovernmental TSCG, signed by 25 Member States[2] on 2 March 2012, into Union law. In principle, the TSCG complements the Stability and Growth Pact (EU No 1466/97 and 1467/97). It requires national debt rules, despite the treaty being international law so far. In order to make the TSCG binding, the Commission incorporates it in Union law, particularly the essence of Article 3 – the so-called Fiscal Compact (COM 2017/821, p. 7). Article 3 requests a balanced budget rule in structural terms together with an automatic correction mechanism (COM 2017/821, p. 8).

New Budgetary Instruments

The literature of the optimum currency area provides ideas on budgetary instruments in order to mitigate imbalances. Mundell (1961), McKinnon (1973) and Kenen (1969) suggested different decentralized and centralized mechanisms. Here are the four sub-

[1] Recently we have even seen a growing populism with an anti-European notion. Early populism was more about anti-globalization and anti-trade, according to Rodrik (2017).

[2] All EU Member States except Czech Republic and United Kingdom.

proposals of the Commission in order to ensure the stability of the euro area, including new instruments (COM 2017/822):

- A "Reform Delivery Tool", in order to support the reform commitment of Member States, and a "Technical Support Tool", which is a request of Member States;
- A "Convergence Facility" for Member States on their way to the euro;
- A "Fiscal Backstop" for the Single Resolution Mechanism, in order to establish a lender of last resort in case of bank failures;
- A "Fiscal Capacity" in order to stabilize the EMU, particularly in case of large asymmetric shocks.

The proposal intends to enhance the economic governance under the present rule-based architecture. However, a fiscal backstop and a fiscal capacity are rather disruptive and new for the Eurozone architecture (Table 1). While the transformative elements use existing financial sources, the new elements require additional sources either indirectly via transfers or through newly designed (European) taxes (COM 2017/822).

Common Provisions Regulation (CPR)

The CPR consists of regulations, which amends existing EU regulations (COM 2017/825). The regulation 2017/0336 (COD) and 2017/0334 (COD) are amending the EU regulation 1303/2013 and Council regulation 1083/2006. The CPR enhances the financial resources under the existing Structural and Investment Fund. In addition, it aims to provide budgetary support, identified under the European Semester. In contrast to the existing funds, the proposal sets milestones and grants new powers to the Commission in order to monitor and evaluate the implementation of the reform commitment. The proposal, however, does not modify the overall level of expenditure (COM 2017/821, p. 9). Furthermore, it strengthens the "Structural Reform Support Programme" that provides tailor-made service and technical support to Member States (EU No 2017/825). The CPR newly offers support to non-euro Member States in preparing for their euro accession.

European Monetary Fund (EMF)

Already the MacDougall Report (Commission 1977) and Delors (1989) referred to the idea of a European monetary fund. The present proposal consists of a Council Regulation (APP 2017/0333), which is subject to the consent of the European Parliament under Article 352 TFEU (COM 2017/821, COM 2017/827). The Commission argues that the intergovernmental governance of the European Stability Mechanism (ESM) is insufficient, despite having ensured stability. On the one hand, the proposal transfers the ESM into an EMF grounded in Union law, which strengthens the transparency, specifically synergies in legal review (COM 2017/821). On the other hand, the EMF has newly unprecedented functions, and among other things, a lending and borrowing capacity (COM 2017/827, COM 0333 APP). The EMF is designed as a unique legal entity and facilitates the raising of new funds; it can issue capital market instruments or borrow in the market. In order to be more reactive in urgent events, decision-making is supposed to be no longer unanimous. In turn, it is partially endorsed by a qualified majority rule (COM 2017/827). Moreover, the EMF has additional elements, such as:

- Foreknow direct involvement alongside the EU's Financial Assistance Programmes in order to strengthen the reform conditionality of future EMF programs;
- A common backstop to the Single Resolution Fund (SRF), the second pillar of the Banking Union (EU No 806/2014) and its Single Resolution Mechanism (COM 2017/821, p. 6);

- A new stabilisation function, such as a “Fiscal Capacity” or other instruments.

European Minister of Economy and Finance

Completing the Euro with a European minister of economy and finance is hardly a new idea in policy and academic circles. In the field of foreign policy, the EU already has a kind of minister. It is a high representative of the Union for Foreign Affairs and Security Policy, currently filled by Ms Mogherini. The proposal adopts this model to the field of economic policy in order to strengthen the coherence, efficiency, transparency and democratic accountability of economic governance (COM 2017/821, p. 10). Simultaneously, the European minister of economy and finance is the Vice-President of the Commission and the president of the Euro-Group. The proposal is justified, according to the Commission, due to the complexity of the Eurozone architecture and the overlapping legal frameworks (COM 2017/821, p. 10). Interestingly, the Commission confesses that the factual complexity is the decentralized responsibility in economic and fiscal matters. To that extent, the proposal paints over national sovereignty and does not suggest any improvement about the true challenge. The Commission states (COM 2017/81, p. 10): “The Minister would strengthen the European dimension of economic policy-making and ensure strong parliamentary scrutiny at EU level, without calling into question national competences.” However, as long as fiscal powers remain in national sovereignty, any European minister increases complexity and overlapping responsibilities.

In the next section, I begin to analyse the reform package in detail. I investigate the disruptive idea of the fiscal capacity, which intends to smooth large asymmetric shocks across euro area countries.

4. Simulation of a Fiscal Capacity

The previous section introduced the institutional aspects of the reform package, including the establishment of a fiscal capacity. In fact, this is a rather disruptive and new proposal. First, it turns the ESM in to an EMF grounded in Union law. Second, it contains a fiscal capacity in order to provide cross-country insurance in the event of large asymmetric shocks. The Commission claims that the fiscal capacity can be designed fiscally neutral over the medium term and without transfer payments across countries. Both constraints are legal requirements under the present treaty. In this section, I empirically study both boundary conditions in detail.

Customarily, a European fiscal capacity intends to reduce economic imbalances. However, what would happen if one country is booming and all others are in balance? For instance, consider the case in Ireland from 2000 to 2006. Should the fiscal capacity slow the booming economy in order to eradicate the imbalance? Indeed, it is hard to imagine that expansionary effects of the single monetary policy can be neutralized by a supranational fiscal capacity. Even national fiscal policy is insufficient to neutralize monetary policy due to limited scope.

In recent years, Germany has set a precedence. The low interest ~ and exchange rates kept Germany’s economy booming and asset prices soaring. At the same time, German fiscal policy is deliberately neutral and even slightly contractionary. Despite fiscal contraction in recent years – Germany has budget surpluses – the growth dynamic did not slow down. Moreover, Bandeira (2018) shows in a DSGE model that fiscal transfers cause a welfare loss by the funding distortions of the capacity. He concludes on page 35 “welfare can actually fall when fiscal transfers are implemented. All in all (…) a scheme of fiscal transfers needs (…) to minimize the distortions its funding causes.”

Next, we compute the monetary contributions to the fiscal capacity based on numerical simulations for the euro area's 19 Member States from 1999 to 2017. We utilize the official AMECO[3] database from the Commission. We demonstrate that the fiscal capacity is insufficient to mitigate the imbalances, particularly under the funding assumption of budget neutrality over the medium-term and the assumption of no transfers across countries. In the following, we explain the methodology of the simulation approach.

First, we have to identify all country-specific asymmetric shocks in comparison to the euro area business cycle over the years. Thus, I compute the annual difference of the output gap of country i ($x_{i,t}$) with respect to the output gap of the euro area x_{EA}, according to

$$AsyShocki = xi - x_{EA} \tag{1}$$

Equation (1) identifies all asymmetric shocks per country and year. Table 2 denotes the results of all asymmetric shocks. A negative number represents a negative economic shock that is worse than the Eurozone average. A positive number denotes a country's favourable economic situation in comparison to the aggregate euro area.

Looking to the numbers in Table 2, we discover massive heterogeneity across countries. There is an imbalance of asymmetric shocks across countries and years. Some countries have 12 – others only four – asymmetric shocks in 18 years. In some years, 13 out of 19 countries face asymmetric shocks, while in other times only five.

Table 2. Asymmetric Shocks per Country and Year in percentage point

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	# Asy. Shocks
Belgium	0.11	0.67	1.28	1.78	1.89	1.67	1.37	1.92	1.82	0.15	0.12	-0.18	0.57	0.38	-0.85	-0.94	-1.60	-0.14	0.19	5
Germany	0.36	0.99	1.58	2.26	2.43	2.65	1.88	0.16	-1.29	-0.09	-0.87	-1.45	-2.22	-1.91	-1.39	-0.66	-0.31	-0.55	-0.37	11
Estonia	2.20	1.74	2.82	4.47	4.44	3.88	0.23	-4.58	-5.67	3.92	11.56	9.36	6.12	2.89	2.93	0.39	-1.32	-3.08	-7.00	5
Ireland	2.00	3.13	3.68	3.41	-0.44	-0.58	-0.29	-1.53	-1.79	-2.45	2.13	1.76	2.16	1.12	0.15	1.38	0.69	2.13	2.15	6
Greece	-7.35	-8.82	-9.30	-9.93	-11.89	-12.23	-9.25	-1.61	4.01	3.14	3.40	3.26	1.51	3.42	2.71	0.41	-0.49	-0.63	0.99	10
Spain	0.25	-0.99	-2.77	-4.90	-5.70	-5.54	-4.43	-2.11	0.25	-0.43	0.28	1.51	2.23	2.10	2.78	2.15	1.71	1.07	0.58	8
France	-0.40	-0.01	0.41	1.03	1.60	1.14	0.78	0.72	1.15	-0.12	0.20	0.72	1.42	1.54	0.96	0.68	0.32	0.20	-0.06	4
Italy	-0.24	-0.66	-1.21	-1.60	-1.32	-0.72	-0.19	0.15	-0.51	-0.46	-0.18	0.41	0.59	0.36	0.39	0.11	0.15	-0.14	-0.63	12
Cyprus	1.66	0.13	-1.78	-4.28	-4.57	-1.25	0.39	2.29	4.30	3.48	2.37	2.46	2.95	2.23	1.30	0.81	-0.07	-0.54	-1.32	7
Latvia	2.65	2.53	2.83	2.87	2.89	0.30	-4.40	-10.29	-7.90	0.82	7.73	6.81	4.23	1.79	1.60	-1.41	-3.25	-3.25	-1.36	7
Lithuania	2.75	2.19	2.41	3.26	2.45	0.18	-3.30	-7.05	-7.22	4.11	5.96	3.20	3.28	1.20	0.82	-4.44	-5.86	-6.54	-3.25	7
Luxembourg	-0.01	0.31	0.67	1.08	-0.98	-2.72	-1.01	-0.36	-2.04	-0.98	2.43	-0.96	-1.05	-0.28	0.60	1.85	1.31	3.60	2.04	10
Malta	1.42	2.19	3.83	4.14	1.42	-0.06	-0.73	0.97	1.42	0.59	-1.38	-1.46	0.43	-0.73	1.47	0.14	-2.14	0.38	-0.48	7
Netherlands	0.53	-0.01	0.03	-0.21	-0.25	-0.46	-0.01	0.09	0.69	0.36	-0.63	-1.37	-1.73	-2.33	-2.22	-1.71	-0.35	0.56	1.14	12
Austria	0.15	0.23	1.07	1.79	2.38	2.47	1.58	0.55	0.94	0.34	-0.39	-0.95	-0.85	-0.88	-1.02	-0.98	-1.39	-0.33	0.40	8
Portugal	0.80	0.30	0.13	-0.63	-1.11	-1.65	0.01	2.25	1.66	-0.66	-1.34	-1.89	-1.23	-1.18	-1.33	-0.18	0.16	0.97	1.89	10
Slovenia	2.15	0.35	-0.86	-1.43	-2.93	-2.64	-1.09	-0.47	0.30	4.93	4.26	2.30	1.70	0.95	0.56	-0.34	-2.11	-1.84	-0.70	10
Slovakia	0.37	0.76	0.69	0.52	0.44	0.28	0.03	1.59	1.34	5.39	4.24	0.91	-0.16	-1.46	-1.80	-4.16	-5.51	-5.04	-1.56	7
Finland	-0.31	-1.21	-1.62	-0.54	0.71	0.70	1.07	-0.32	-1.68	1.96	1.76	0.01	-0.30	-0.53	-1.13	-1.20	-0.44	0.93	1.09	11
Asy. Shocks per year	5	6	6	8	9	10	10	9	8	7	6	7	7	8	7	10	13	11	10	

Source: *own computation.*

According to the Commission's proposal, the fiscal capacity only has to mitigate large asymmetric shocks. Hence, I define a large asymmetric shock as an output gap difference of at least one standard deviation according to equation (1). Under this definition, the number of asymmetric shocks declines significantly per country and year (Table A1 – Appendix). Now, on average, there are only 3.1 large events per country and year, in comparison to 8.2 in Table 2. That means that there are averagely three asymmetric shocks per country per 18 years. Or, on average, there are 3 out of 19 euro area countries hit by a large asymmetric shock per year (Table A1).

However, during the great recession of 2009 and the following years, more than six Member States were faced with a large asymmetric shock. Indeed, Italy, Greece and Portugal have had seven or more asymmetric shocks, while Ireland, Malta and Austria have had none

[3] Note the AMECO data contain the output gap (xi) for 19 euro area countries and the euro area as whole.

in the last18 years (Table A1). As a result, despite the focus on large asymmetric shocks, there is still great heterogeneity across countries. Can a fiscal capacity manage this heterogeneity?

In step two, I compute the financial contributions to a fiscal capacity per country subject to the neutral budget constraint condition. In economically good times countries pay in the fiscal capacity in order to get money out in economically bad times. I define the required balanced budget principle for the period of 1999 to 2017, which would be considered long-term. However, if the budget constraint does not work in the long-term, it can be argued that it will definitely not work in the medium-term. Multiplying the asymmetric shocks (Table 2) with the GDP of country i respectively, yields

$$EMF_{Budget,i} = AsyShock_i * GDP_i \tag{2}$$

The essence of equation (2) denotes the amount each country would have to pay to a fiscal capacity in order to compensate for its asymmetric shocks under the proposed constraints (Table 3). By adding the financial contributions (the positive numbers) and disbursements (the negative numbers) for each country, you obtain zero. Hence, this is showing that the computation satisfies the balanced budget constraint. Most notably, the annual contributions for the countries are partly substantial. For instance, Germany has to pay on average 1.2 percent of its GDP every year; or, in 2017, it had to pay the sole amount of 36.2 bn Euro (Table 3). Greece and Spain even had to pay, on average, 6.7 percent and 2.6 percent with respect to GDP (Table 3). Given the substantial financial contributions, in order to smooth all asymmetric shocks, such a full capacity is politically unrealistic.

Table 3. Fiscal Capacity per Country and year in bn Euro

in bn euro	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Belgium	0.930	0.914	0.893	0.888	0.885	0.890	0.875	0.878	0.830	0.868	0.852	-0.633	0.803	0.787	-2.780	-3.035	-5.101	-0.458	0.716
Germany	36.169	35.418	34.796	34.243	33.689	33.553	33.447	32.092	-32.770	-2.495	-23.030	-37.147	-54.379	-46.290	-32.910	-15.690	-7.353	-12.838	-8.503
Estonia	0.217	0.207	0.203	0.198	0.193	0.186	0.177	-0.638	-0.791	0.188	0.196	0.185	0.170	0.153	0.144	0.135	-0.143	-0.316	-0.663
Ireland	1.137	1.104	1.005	0.863	-0.649	-0.823	-0.405	-2.149	-2.463	-3.661	0.827	0.797	0.746	0.702	0.657	0.619	0.594	0.573	0.523
Greece	-13.803	-16.373	-17.277	-18.475	-21.880	-23.430	-18.471	-3.556	15.664	16.241	16.364	15.963	15.206	15.218	14.514	13.887	-0.968	-1.216	12.409
Spain	29.608	-10.939	-29.569	-50.558	-57.868	-57.130	-46.581	-22.519	27.569	-4.639	28.107	27.274	26.259	25.452	24.699	23.863	23.207	22.469	21.297
France	-8.694	-0.253	0.892	0.882	0.873	0.868	0.874	0.854	0.836	-2.485	0.862	0.842	0.820	0.805	0.781	0.773	0.770	0.756	-1.063
Italy	-3.908	-10.469	-18.701	-24.713	-20.372	-11.251	-3.137	17.490	-8.030	-7.669	-3.059	18.230	17.829	17.605	17.276	17.256	17.238	-2.210	-9.407
Cyprus	0.213	0.205	-0.316	-0.718	-0.769	-0.228	0.221	0.213	0.215	0.216	0.163	0.169	0.166	0.160	0.169	0.165	-0.010	-0.069	-0.166
Latvia	0.517	0.497	0.487	0.474	0.464	0.451	-0.840	-1.868	-1.579	0.492	0.501	0.458	0.416	0.372	0.349	-0.200	-0.430	-0.402	-0.159
Lithuania	0.843	0.810	0.791	0.797	0.760	0.731	-0.945	-1.938	-2.028	0.764	0.742	0.680	0.637	0.588	0.549	-0.915	-1.128	-1.177	-0.560
Luxembourg	-0.003	0.375	0.354	0.336	-0.279	-0.778	-0.292	-0.106	-0.531	-0.301	0.355	-0.256	-0.319	-0.081	0.307	0.318	0.322	0.302	0.279
Malta	0.044	0.042	0.041	0.038	0.035	-0.004	-0.047	0.032	0.031	0.033	-0.085	-0.085	0.029	-0.042	0.029	0.028	-0.117	0.027	-0.024
Netherlands	10.645	-0.056	10.135	-1.367	-1.630	-2.983	-0.041	9.868	9.662	9.844	-4.069	-8.533	-10.177	-13.694	-12.737	-9.629	-1.955	8.736	8.345
Austria	1.787	1.743	1.707	1.703	1.691	1.688	1.681	1.641	1.597	1.674	-1.167	-2.734	-2.354	-2.381	-2.674	-2.558	-3.538	-0.832	1.330
Portugal	2.196	2.137	2.092	-1.042	-1.832	-2.729	2.165	2.173	2.126	-1.161	-2.359	-3.245	-2.112	-2.010	-2.227	-0.310	2.086	2.049	2.002
Slovenia	0.581	0.556	-0.310	-0.512	-1.014	-0.922	-0.393	-0.169	0.528	0.567	0.551	0.520	0.494	0.473	0.455	-0.100	-0.606	-0.511	-0.186
Slovakia	0.835	0.808	0.779	0.754	0.736	0.718	0.694	0.685	0.663	0.692	0.648	0.585	-0.081	-0.702	-0.814	-1.874	-2.385	-2.099	-0.643
Finland	-0.607	-2.322	-3.054	-1.018	2.160	2.180	2.210	-0.608	-3.094	2.275	2.261	2.163	-0.539	-0.927	-1.882	-1.991	-0.708	1.801	1.699
SUM	58.707	4.404	-15.054	-57.225	-64.805	-59.014	-28.809	32.374	8.432	11.443	18.661	15.233	-6.386	-3.814	3.903	20.742	19.774	14.583	27.225

Source: *own computation*.

Moreover, it is remarkable that the asymmetric shocks have been persistent in the majority of countries, over many years. In Ireland, Greece, Spain, Italy, Luxembourg, Germany, Netherlands, Austria, Portugal, Slovenia, Slovakia, and Finland, the asymmetric shocks continue for more than four years (Table 3). In general, the long duration indicates a massive problem for any fiscal capacity, including a supranational fiscal union (Farhi & Werning, 2017, Bandeira, 2018). Note that a fiscal stimulus is only effective in the short-term (Tcherneva, 2011). Indeed, when considering persistent shocks, countries would rather need monetary support or structural reforms than a supranational fiscal capacity. Consequently, the proposal treats mainly the symptoms. Indeed, a fiscal capacity is unable to solve the root causes of asymmetric shocks because the Eurozone is not an optimum currency area!

Finally, the annual volume of the EMF is highly volatile and displays significant imbalances across countries and over years. The aggregate imbalance ranges from a deficit of 64.8bn Euro to a surplus of 58.7bn Euro (Table 3). Given this imbalance, the aggregate capacity only balances if we allow for substantial transfers across countries or considerable borrowing at the European level. Certainly, both actions are hardly in line with the Lisbon Treaty.

Even worse, the fiscal capacity creates pro-cyclical behaviour. During the great recession of 2009, more than half of the Member States had to pay in to the capacity in order to balance the account in the medium-term (Table A1). Note, in 2009 all countries faced the severest recession in almost 100 years, yet get no support from the fiscal capacity! This would have had amplified pro-cyclical policy of the funding countries. Thus, the argument that the EMF minimizes pro-cyclical policies remains unproven. Similarly, Brunnermeier et al. (2017) recognizes that European Safe Bonds – so-called ESBies – are not functional if there is substantial cross-country heterogeneity (Acharya & Dogra, 2017).

In Table 4, I compare the needed financial contributions per country with respect to GDP while considering smoothing either all or only large asymmetric shocks. The numerical computation follows the basic Newton-Raphson iteration method. I compute the average financial contribution to the fiscal capacity, under the assumption that it smooths out the asymmetric shocks $AsyShock_i$ in each country under the following balanced budget constraint

$$\sum_{i=1}^{19}\left(\sum_{1999=j}^{2017} EMF_{Budget,i,j}\right) = 0 \quad , \tag{3}$$

i.e. each of the 19 euro area countries must have a balanced budget over the period of 1999 to 2017. Under this assumption, two observations stand out.

Firstly, the financial contribution for large asymmetric shocks is substantially smaller, as well as the scope of the fiscal capacity (Table A2). Under this assumption, Germany has had two asymmetric shocks, while Greece has had seven in the last 18 years. Interestingly, we identify no large asymmetric shock in France nor Malta and Austria during the whole period. Hence, the fiscal capacity that accounts for large asymmetric shocks does not support Member States equally. Even during the severe recession of 2009, the majority of states would not have received support. On the contrary, they would have to pay in to in order to guarantee the balance in medium-term, creating pro-cyclical behaviour yet again. At the same time, countries that do need support receive modest funding despite large asymmetric shocks. In fact, letting the (domestic) automatic stabilizers work is likely more effective than a fiscal capacity responsive to large asymmetric shocks (Bandeira, 2018).

Secondly, even if the fiscal capacity focuses on large asymmetric shocks, heterogeneity remains across countries. The financial contributions in percent of GDP vary substantially as denoted by the second column of Table 4. Furthermore, the aggregate deficit (-63.3bn Euro) of the fiscal capacity is almost as high as if they were under the assumption of all asymmetric shocks (-64.8bn Euro). This demonstrates a fiscal capacity is infeasible under the legal constraints due to the cross-country heterogeneity in the Eurozone. In fact, heterogeneity would require, regardless of the scope, either a monetary transfer or permission to borrow at the Union level. This, however, contradicts the proposal of the Commission as it infringes the rule-based architecture of the European treaty today.

Table 4. Average Contributions to the Fiscal Capacity per Country in Percent of GDP

	Contributions in % of GDP in order to balance the EMF between 1999-2017	
	All asy. Shocks	1SD asy. Shocks
Belgium	0.2332	0.0020
Germany	1.2198	0.0581
Estonia	1.1750	0.0160
Ireland	0.5324	0.0001
Greece	6.6990	3.2920
Spain	2.5985	1.0251
France	0.0419	0.0000
Italy	1.1092	0.4118
Cyprus	1.1400	0.1840
Latvia	2.2850	0.5270
Lithuania	2.4430	0.7020
Luxembourg	1.1530	0.0720
Malta	0.5100	0.0000
Netherlands	1.5500	0.4741
Austria	0.5500	0.0000
Portugal	1.1249	0.2030
Slovenia	1.4990	0.0630
Slovakia	1.0370	0.3070
Finland	1.1465	0.1270
Max surplus of EMF in bn Euro	58.707 €	27.495 €
Max deficit of EMF in bn Euro	-64.805 €	-63.342 €

Note: 1SD denotes one standard deviation.

Source: *own computation.*

In summary, there is little reason to have a debate about a fiscal capacity when it will be ineffective. In a rule-based architecture and from an economic point of view, it is more effective to design fiscal buffers at home. To be fair, demanding fiscal buffers during economically favourable times in order to smooth asymmetric shocks is not new; the Stability and Growth Pact requests domestic buffers and even a balanced budget in medium-term since 1997. Member States, however, have never enforced this rational in practice. To this extent, the fiscal capacity intents to imitate or even eliminate the rules of the Stability and Growth Pact. Overall, an effective fiscal capacity either needs a political union, including a European budget, or undercuts the Member States' responsibility in a rule-based architecture.

5. Institutional Implications and Policy Recommendations

In this section, I assess the 140 pages of the reform package, but consider only the disruptive elements. In particular, I study the proposed institutional incentive structure as well as the economical, sociological and philosophical implications.

I. New Budgetary Instruments

The proposed fiscal backstop and fiscal capacity create new overlaps in responsibilities and a mixture of powers across the national and European level. Thus, there is the risk that they are beyond the present legal architecture. The main argument in favour of both mechanisms is the limited size of the EU budget alongside a required prohibition of

borrowing in Europe. Indeed, only in special cases, "the EU is empowered to borrow and lend" (COM 2017/822), notably under the Balance of Payments Facility (EC No 332/2002) or the European Financial Stabilisation Mechanism (EU No 407/2010). Of course, in exceptional cases, there is the possibility of European coordination under Article 20 TEU and Article 326ff TFEU, however, macroeconomic stabilization is deliberately the responsibility of supranational monetary and national fiscal policy (Article 119 TFEU and 136 TFEU).

Interestingly, the Commission's objective is also more far-reaching as it "intends (…) to support Member States' agreed reform commitments financially" (COM 2017/822, p. 5). This implies that the Commission wants to buy reform commitments. In general, Sandel (2012) shows that money cannot buy commitments. In fact, there is empirical evidence that money erodes the intrinsic motivation to enforce reforms while continuously degrading the people who are suffering under the reforms (Frey, Oberholzer-Gee & Eichenberger, 1996; Frey & Oberholzer-Gee, 1997; Deci, Koestner & Ryan, 1999; Gneezy & Rustichini, 2000).

In addition, the proposed convergence facility of future euro and non-euro Member States is risky, even if "the distinction between them is becoming less relevant over time" (COM 2017/822, p. 5). Alesina et al. (2017) and Herzog (2018) demonstrate a growing divergence between euro and non-euro Member States. Alesina et al. (2017) conclude:

"(...) there is virtually no evidence of cultural convergence, neither within nor across countries. If anything, we see cultural divergence. (...) The process of European integration devoted considerable effort to the diffusion of best practices, (...), which was not very successful."

Among other things, in a rule-based architecture countries have to demonstrate their readiness to adopt the euro without financial support. Indeed, joining the euro requires sustainable public finances before and afterwards (Herzog, 2016; Ademmer, 2018). Thusly, the degree of convergence has to be achieved without European interventions. Apart from the Maastricht criteria in Article 140 TFEU and in Protocol No 13, real economic convergence is imperative for a successful membership (COM 2017/822, p. 9, COM 2017/825, p. 1). Worse yet, a study by the Commission (2017) shows a real dispersion in recent years as well. So, does new money really help more? Under the rule-based framework, it is evident that a convergence facility would likely bias the economic readiness of new Member States. This mechanism creates unsustainable incentives and moral hazard for candidate countries (Jones, 2018).

Similar arguments apply to a fiscal capacity. Our simulation results in section 4 demonstrate the misconception. Since the 1970s, the idea of Keynesian stabilization has failed accordingly (Bartlett 1993, Lewis 2009). Activating financial resources to deal with shocks that cannot be managed at the national level alone have two flaws (COM 2017/822, p. 13). First, managing shocks effectively always requires monetary policy, not primarily fiscal policy. Second, any fiscal stimulus crowds out private investments. Keheo and Patroni (2017) find that a fiscal union (or fiscal capacity) is only optimal when countries are either unable or unwilling to pursue desirable policies. Moreover, they show a fiscal "authority is unnecessary if its only goal is to provide cross-country insurance" (Kehoe & Patroni, 2017). Nevertheless, the Commission justifies the fiscal capacity with its stabilization function and the goal of cross-country insurance. In addition, Martinez-Garcia (2017) finds that a stabilization mechanism in a currency union leads to indeterminacy of monetary policy.

Following the Maastricht architecture, I recommend building-up fiscal buffers in each Member State. Then, when faced with asymmetric shocks, countries use these buffers together with the automatic stabilizers. As long as fiscal policy remains in national responsibility, I recommend precautionary mechanisms in order to handle asymmetric shocks. Addressing asymmetric shocks with a European stabilization facility ex post is costlier and less effective, as evidenced by the worldwide financial crisis of 2008.

The authentic intension of a fiscal capacity is anyway different. The Commission (2017/822, p. 6) writes, "Unlike national budgets, the EU budget cannot incur debt (…). Instead, it relies on financing through *own resources*." This reveals the political intension, as a fiscal capacity would allow either European borrowing or taxpayer money from Member States. Thus, the misconception is evident, given the Commission suggests automatic and rapid activation of the new fiscal capacity. In general, in a rule-based Eurozone, a fiscal capacity is likely noncredible because the Member States still have the fiscal responsibility and merely an limited fiscal commitment. As a matter of fact, the Commission has already speculated what would occur "if these buffers and stabilizers are not sufficient" (2017/822, p. 13). Thus, the proposal reveals major flaws, particularly in light of the numerical results above.

II. European Monetary Fund (EMF)

Since the beginning of the EMU, the idea of a monetary fund existed. The EMF is designed to be the successor to the ESM, incorporating further powers, such as a fiscal backstop and a lending capacity (COM 2017/827, p. 6). The Article 136(3) TFEU warrants the legal foundation of the new lending and borrowing capacity. The Commission argues that Member States cannot unilaterally guarantee stability in exceptional situations. Note, however, despite the US being a political union par excellence, the 50 sovereign US-States have to manage its stability – except for natural catastrophes – alone, together with a strict no-bailout rule (Sinn, 2016; Keheo & Patroni, 2017; Herzog, 2018).

Juncker (2017) argues that the Eurozone requires strong governance, however, he is failing to recognize that the present rule-based architecture bestows sovereignty in fiscal matters exclusively to Member States. The Commission confess (2017/827, p. 3,5), "the role for the National Parliaments remains fully preserved, in view of the large contributions of the Member States to the EMU." Yet again, this statement confirms that an effective fiscal capacity – as prevalent in sovereign states – requires the surrendering of national sovereignty.

Furthermore, the effectiveness of monetary policy over fiscal, such as the announcement of the OMT program, comes from the credible and unlimited commitment of the central bank. The ECB-President said (Draghi, 2012): "The ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough." An unlimited fiscal commitment, however, is impossible as long as there is no political union. Thus, in a rule-based architecture any fiscal commitment is less effective.

In addition, the Commission states (COM 2017/827, p. 3) the "ESM generates a complex, landscape where judicial protection, respect of fundamental rights and democratic accountability are fragmented and unevenly implemented. (…) the decision-making process under an intergovernmental method usually requires cumbersome national procedures (…)". However, as long as the EMF has to respect the sovereignty of Member States, the same complex and cumbersome national processes apply to the EMF.[4] Thus, either the EMF is a replica of the ESM in Union law, or it is an infringement on national sovereignty.

Looking ahead, the legal initiative is subject to Article 352 TFEU. Already today, several Member States cast doubt upon this legal foundation. For instance on 31 January 2018, the majority of the Deutsche Bundestag argued for the need of a treaty change.

Nonetheless, there is an even more fundamental critique. An EMF would not mitigate the current account imbalances and real divergence in the Eurozone. Tackling these issues

[4] The EFM creates a transfer mechanism. This is reiterated on p. 10 (COM 2017/827): "(…) the Union would be equipped with a full range of **permanent** stabilization facilities covering the entirety of the Member States, and drawing on considerable financial resources, over and beyond those accessible through the EFSM."

require a full transfer union. Therefore, the EMF in its current form treats the symptoms of heterogeneity rather than the root cause: the EMU is not an optimal currency area!

Overall, the EMF infringes the economic essence of Article 123 TEFU. The proposal suggests (COM 2017/827, p. 26) “The loans provided by the EMF could be provided without conditionality”. However, according to the case Pringle v Ireland, conditionality is a requirement in the rule-based architecture of today (Schimmelfennig & Sedelmeier, 2011, Armingeon & Cranmer, 2017). Furthermore, the proposal contains a ‘perbedeu mobile’: The EMF purchases debt in the primary market and the ECB purchases the debt from the EMF in the secondary market (COM 2017/827, p. 11). This creates a vicious debt-circle. In the end, it jeopardizes the objective of a lasting and stable monetary union.

III. European Minister of Economy and Finance

The idea of a European minister of economy and finance would simplify decision-making processes, which are not sufficiently understandable nor efficient today (COM 2017/823, p.1; COM 2017/823, p. 2). Of course, the merger of jobs would create synergies, particularly during the enforcement of the European Semester (Savage & Howarth, 2018; Calliess, 2018). The new function would “promote better the general interest of the Union and the euro area economy, both internally and at a global level” (COM 2017/823, p. 3).

However, Herzog and Hengstermann (2013) show that the true challenge is the enforcement of fiscal rules as well as the institutional complacency in Europe. A proposal that simply sticks to sovereign Member States without enhancing fiscal governance, does not tackle the root causes of the yet instable Eurozone.

Interestingly, the scope of the European minister is even “serving the broader goals of fiscal (…) redistribution” (COM 2017/823, p. 4). This would require “the individual and collective willingness of the Member States”, according to the Commission. Or, in short, a political union. But on page 5, they claim the minister “would [not] impinge on national competences.” If this holds, a European minister would be likely rather marketing. It remains questionable whether a minister, as designed in the proposal, “would be an important institutional step for a more coherent, effective and accountable economic governance of the European Union” (COM 2017/823, p. 4).

In summary, there is mixed evidence about the reform package. A fiscal union that keeps responsibilities at the national level and, at the same time, demands European decision-making, is an oxymoron. Legally, this is difficult to organize and would require a treaty change (COM 2017/821, p. 12). Although the Commission demands “a clear sense of direction for the period of 2019-2024”, the reform package is hardly consistent. In this regard, the proposals do not bring justice to further European integration. As a matter of fact, the Commission is its own prisoner. Either it sticks to the rule-based architecture or it demands the mission impossible: a political union. A mixture of both would definitely be the worst case.

6. Conclusion

The Economic and Monetary Union is at a crossroads. The Commission claims without supranational instruments, such as a fiscal capacity, the EMU will fail. Nonetheless, the reform package reveals a muddling through with a new mixture of responsibilities. Any institutional mixture, however, would create inefficient governance and a flawed democratic legitimization. Looking ahead, the core principle has always been, since the Treaty of Maastricht, control and responsibility in the same – so far national – hand. Sticking to a

consistent rule-based architecture is better than a mixture of powers that threatens the stability of the Eurozone as a whole.

The analysis of the reform package, particularly concerning the disruptive elements, shows that the proposals do not hold the bold promises of the Commission. The Commission fails to show a feasible sequencing strategy of willing Member States; – in order to create a "Europe of Pioneers". But if the Commission cannot create a partnership of eager countries, it should stick to and enhance the rule-based architecture of Maastricht.

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Appendix

Table A1

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	Asy. Shocks per Country
Belgium	1.67	2.23	2.84	3.34	3.45	3.23	2.92	3.48	3.37	1.71	1.67	1.38	2.13	1.94	0.71	0.62	-0.04	1.41	1.75	1
Germany	1.90	2.52	3.12	3.80	3.96	4.19	3.42	1.70	0.24	1.44	0.66	0.08	-0.69	-0.37	0.14	0.87	1.23	0.99	1.16	2
Estonia	8.70	8.24	9.32	10.98	10.94	10.38	6.73	1.92	0.83	10.42	18.06	15.86	12.62	9.39	9.43	6.89	5.18	3.42	-0.50	1
Ireland	4.73	5.87	6.41	6.14	2.30	2.15	2.44	1.20	0.94	0.28	4.86	4.49	4.89	3.85	2.88	4.11	3.42	4.86	4.89	0
Greece	-4.09	-5.56	-6.05	-6.68	-8.64	-8.97	-5.99	1.65	7.26	6.39	6.66	6.52	4.76	6.67	5.97	3.67	2.77	2.62	4.24	7
Spain	2.34	1.11	-0.67	-2.80	-3.60	-3.44	-2.33	-0.02	2.35	1.67	2.38	3.61	4.33	4.19	4.88	4.24	3.80	3.17	2.68	6
France	0.82	1.21	1.63	2.25	2.81	2.36	2.00	1.94	2.37	1.10	1.42	1.94	2.63	2.76	2.18	1.90	1.54	1.42	1.16	0
Italy	0.06	-0.36	-0.91	-1.30	-1.02	-0.42	0.11	0.46	-0.21	-0.16	0.12	0.71	0.89	0.67	0.69	0.41	0.45	0.16	-0.33	8
Cyprus	4.58	3.06	1.14	-1.36	-1.64	1.67	3.31	5.22	7.23	6.41	5.30	5.38	5.87	5.16	4.22	3.74	2.85	2.39	1.61	2
Latvia	7.40	7.27	7.57	7.61	7.63	5.05	0.34	-5.54	-3.15	5.57	12.47	11.56	8.98	6.53	6.34	3.33	1.49	1.49	3.38	2
Lithuania	6.60	6.04	6.26	7.11	6.30	4.03	0.55	-3.20	-3.37	7.96	9.81	7.05	7.13	5.05	4.67	-0.59	-2.01	-2.69	0.60	5
Luxembourg	1.74	2.06	2.41	2.83	0.77	-0.97	0.74	1.38	-0.30	0.76	4.18	0.79	0.70	1.46	2.35	3.60	3.05	5.34	3.78	2
Malta	3.63	4.41	6.05	6.35	3.63	2.16	1.49	3.19	3.63	2.80	0.84	0.75	2.65	1.48	3.69	2.35	0.08	2.59	1.74	0
Netherlands	1.09	0.56	0.59	0.35	0.31	0.10	0.56	0.65	1.25	0.93	-0.07	-0.81	-1.16	-1.77	-1.66	-1.14	0.22	1.13	1.70	6
Austria	1.57	1.65	2.49	3.21	3.80	3.89	3.00	1.97	2.36	1.76	1.03	0.47	0.57	0.54	0.41	0.44	0.03	1.09	1.82	0
Portugal	1.84	1.35	1.17	0.42	-0.07	-0.61	1.05	3.29	2.70	0.38	-0.30	-0.85	-0.19	-0.14	-0.28	0.86	1.21	2.01	2.93	7
Slovenia	4.42	2.63	1.41	0.84	-0.65	-0.37	1.18	1.80	2.57	7.20	6.53	4.57	3.97	3.22	2.83	1.93	0.16	0.44	1.57	2
Slovakia	2.86	3.25	3.18	3.01	2.93	2.77	2.53	4.08	3.83	7.88	6.73	3.40	2.34	1.04	0.70	-1.67	-3.02	-2.54	0.93	3
Finland	0.71	-0.19	-0.61	0.47	1.73	1.71	2.08	0.69	-0.67	2.97	2.78	1.03	0.72	0.49	-0.11	-0.19	0.58	1.95	2.11	5
Asy. Shocks per year	1	3	4	4	6	6	2	3	5	1	2	2	3	3	3	4	3	2	2	

Table A2

Volume in bn euro	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	% of GDP
Belgium	0.008	0.008	0.008	0.008	0.008	0.008	0.008	0.008	0.007	0.007	0.007	0.007	0.007	0.007	0.007	0.006	-0.130	0.006	0.006	**0.0020**
Germany	1.723	1.687	1.657	1.631	1.605	1.598	1.593	1.529	1.473	1.541	1.532	1.487	-16.810	-9.054	1.371	1.377	1.382	1.361	1.320	**0.0581**
Estonia	0.003	0.003	0.003	0.003	0.003	0.003	0.002	0.002	0.002	0.003	0.003	0.003	0.002	0.002	0.002	0.002	0.002	0.002	-0.047	**0.0160**
Ireland	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.0001**
Greece	-7.686	-10.328	-11.232	-12.420	-15.890	-17.191	-11.968	7.289	7.698	7.981	8.042	7.845	7.472	7.478	7.133	6.824	6.543	6.316	6.098	**3.2920**
Spain	11.680	11.333	-7.171	-28.929	-36.574	-35.507	-24.536	-0.177	10.876	11.181	11.088	10.759	10.359	10.041	9.744	9.414	9.155	8.864	8.401	**1.0251**
France	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.0000**
Italy	6.604	-5.714	-14.028	-20.060	-15.733	-6.528	6.628	6.594	-3.274	-2.681	6.953	6.873	6.722	6.638	6.514	6.506	6.499	6.381	-4.892	**0.4118**
Cyprus	0.034	0.033	0.033	-0.228	-0.276	0.033	0.036	0.034	0.035	0.035	0.026	0.027	0.027	0.026	0.027	0.027	0.025	0.024	0.023	**0.1840**
Latvia	0.119	0.115	0.112	0.109	0.107	0.104	0.101	-1.007	-0.631	0.113	0.116	0.106	0.096	0.086	0.080	0.075	0.070	0.065	0.061	**0.5270**
Lithuania	0.242	0.233	0.227	0.229	0.218	0.210	0.201	-0.879	-0.947	0.219	0.213	0.196	0.183	0.169	0.158	-0.121	-0.387	-0.485	0.121	**0.7020**
Luxembourg	0.024	0.023	0.022	0.021	0.020	-0.278	0.021	0.021	-0.077	0.022	0.022	0.019	0.022	0.021	0.019	0.020	0.020	0.019	0.017	**0.0720**
Malta	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.0000**
Netherlands	3.256	3.148	3.100	3.041	3.048	3.074	3.099	3.018	2.955	3.011	-0.447	-5.017	-6.854	-10.381	-9.501	-6.445	2.668	2.672	2.552	**0.4741**
Austria	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**0.0000**
Portugal	0.357	0.347	0.340	0.337	-0.108	-1.004	0.352	0.353	0.345	0.355	-0.525	-1.456	-0.321	-0.231	-0.476	0.342	0.339	0.333	0.325	**0.2030**
Slovenia	0.024	0.023	0.023	0.023	-0.227	-0.129	0.023	0.023	0.022	0.024	0.023	0.022	0.021	0.020	0.019	0.019	0.018	0.018	0.017	**0.0630**
Slovakia	0.247	0.239	0.231	0.223	0.218	0.213	0.206	0.203	0.196	0.205	0.192	0.173	0.160	0.148	0.139	-0.751	-1.306	-1.061	0.126	**0.3070**
Finland	0.252	-0.373	-1.146	0.239	0.239	0.242	0.245	0.241	-1.227	0.252	0.250	0.240	0.229	0.224	-0.185	-0.313	0.206	0.200	0.188	**0.1270**
SUM	**16.888**	**0.778**	**-27.822**	**-55.772**	**-63.342**	**-55.153**	**-23.991**	**17.251**	**17.453**	**22.269**	**27.495**	**21.283**	**1.315**	**5.192**	**15.051**	**16.983**	**25.103**	**24.715**	**14.318**	