The reforms in the economic governance and the new financial mechanisms in Euro area after debt crisis

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Abstract

The economic governance in the Eurozone and the EU is not the same after the crisis. The results of the financial crisis changed the EU's way of thinking about addressing issues such as the public debt service, the banking system functioning, the ECB's role and the depth of its intervention. When R. Mundell (1961) developed the theory of optimum currency areas the Eurozone was certainly not in his mind, while the same view is maintained by P. Krugman (2009) too. However, the EU financial and economic sector is entirely different today. After tens of EU bodies meetings there is now a number of new rescue mechanisms, institutions and regulations. But, are all these changes well enough to get the Eurozone out of the crisis? Certainly not, but they had never been given in the past as well. The "moral hazard" and the lack of a last resort lender did not finally work as the EU leaders thought. The Eurozone is the core of the EU and it is slowly evolved, step by step, from an economic to a political union. The EU has at its disposal the European Stability Mechanism (ESM) with a lending capacity of over half a billion euros, while there have been also other mechanisms like the EFSF and the EFSM, with the total sum of granted loans by these three mechanisms to date being amounted to over 350 billion euros. Additionally, the EU heads rapidly for a banking union through the establishment of new institutions like the Single Resolution Fund (SRF), the Single Resolution Mechanism (SRM) and the Single Supervisory Mechanism (SSM), which will supervise over 180 systemic banks in the Eurozone. Furthermore, the ECB used non-standard monetary policy mechanisms in order to support countries and banking institutions. The best known mechanism is the Quantitative Easing (QE) programme worth about one trillion euros. The new model of economic governance moves to a progressive direction, but the size of the instruments may not be enough for the EU to exit the crisis.

Keywords: economic governance, institutional reforms, Eurozone

1. Introduction

This article is trying to highlight the institutional reforms promoted in the EU and the Eurozone, which aimed at the debt crisis resolution as well as the economic and political deepening. At the same time, it is noting the structural weaknesses that did not allow the EU and the Eurozone to deal immediately with the financial crisis.

The global economic crisis burst out in September 2008[1] in the USA –like in October 1929– and a short time later shifted to the Old Continent. Chart 1 shows the evolution of GDP at current prices in the USA, the Eurozone, the EU, China and Russia. It is easily understood that the USA economy recovered much faster than anticipated and in 2010 it exceeded the GDP of 2008, whereas the Eurozone and the EU countries –though having achieved positive growth rates since 2011– have not reached yet the

[1] Although many economists had marked the real estate market recession since 2007 and the relative problems in the mortgage loan market due to high leverage that was transmitted to the financial sector, the international literature recognizes as the beginning of the global economic crisis the 15th of September 2008, the date when Lehman Brothers – the USA's fourth largest investment bank– announced its bankruptcy.

maximum GDP of 2008. The European edifice and more specifically its heart, namely the member states of the Economic and Monetary Union (EMU), did not manage to exit recession quickly, while, according to Charts 2 and 3, their growth and unemployment indexes[2] are even now worse than those of the USA and China.

Between 2011 and 2015 the euro depreciated by 30% against the US dollar[3], while the Eurozone GDP increased marginally during the years 2009-2014 compared to the USA GDP, which soared over 18% in the same period. All the above-mentioned evidence supports the view that the euro edifice has not managed yet to exit the vicious circle of the economic crisis, the monetary uncertainty and the financial instability.

Nevertheless, is the EU of 2008 the same with that of 2015? The answer is negative; of course, the EU is not the same; it is very different in economic, social and political terms. The time of the EU evolution since its establishment runs very slow, but during the last five years of the crisis the political time has been shrunk and many changes in the EU have been made, at least when it comes to economic governance and financial sector function.

Finally, is the EU a shaky edifice that slowly collapses? Likewise, the answer to this question is also negative. The relative figures show that in 2014 the EU GDP remained the highest in the world (18.46 billion dollars), while it represented 29.78% of the global economy, which is a bit less than 1/3 of the global GDP, despite the fact that the EU constitutes just 7% of the global population[4].

1.1 Economic governance in the EU

The EU is not just a union of states; it is a sui generis entity, something much more than a confederation and way too much beyond a federation. The economic governance differs from the monetary governance[5]. The economic governance, which is the pillar of the EMU, includes the EU rules implemented by the states, but the economic policy remains at national level. On the contrary, the monetary policy has shifted to European level. According to theorists of this field (Barro and Gordon, 1983), the quality of monetary union depends on the rules, the prudence and the reputation of the central bank. As can be seen next, central bankers Trichet and Draghi maintained the ECB's quality level at the highest possible standards and stabilized the monetary union amid debt crisis. On the other hand, some economists (Krugman, 2009), who claimed before 1999 that the EMU had not been fulfilling the conditions set by the theory of "Optimum Currency Areas" (OCA) and that it could hardly cope with an asymmetric economic shock, were at least partly confirmed.

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[2] According to figures of the World Bank, the unemployment rate for June 2015 in the USA was 5.3%, whereas in the Eurozone it was 11.1% and in the EU 9.6%. Respectively, the growth rate for the first quarter of 2015 in the USA was 2.9% compared to 1% in the Eurozone and 1.5% in the EU.

[3] On 03.05.2011 the EUR/USD exchange rate was at 1.48, whereas on 11.03.2015 it was at 1.05.

[4] All these data are collected from the highly recognized and reliable databases of the World Bank and the Eurostat.

[5] The body in charge of the economic governance in the EU is Ecofin and in the Eurozone is Eurogroup, while for monetary governance issues the competent body is the ECB.

1.2 Was the Eurozone prepared to deal with the crisis?

The OCA theory (Mundell, 1961) argued that the adoption of a common currency from at least two states or a group of states, such as those of the Eurogroup, is legitimate since it would create more economic benefits than damages for them. The main criteria[6] for an optimum currency area are the capital and workforce mobility[7], the symmetric business cycles[8][9] as well as the wage and price flexibility. Many economists (Krugman and Obstfeld, 2009, Gros and Thygesen, 1992) opposed the view that the Eurozone is an optimum currency area by stressing the ECB's weakness to deal with asymmetric shocks caused by the economic crisis. Added to that, the moral hazard in the Eurozone (Krugman, 2009) not only prevents states from being rescued by other states or the ECB[10], but also left the monetary union exposed to a crisis nobody would (like to) imagine, since there was actually no emergency plan. A significant part of the economic crisis was due to the public debt surge and the inability of some governments to borrow so as to serve their obligations. Consequently, there were no appropriate mechanisms to deal with the debt crisis. A recent study (De Grauwe, 2013) holds that there were economic distortions and obstacles at national level before and after the monetary union, which did not allow the economic and monetary integration. Furthermore, after the monetary union there was neither fiscal discipline nor implementation of the monetary rules, since the Stability and Growth Pact was not implemented and, to make matters worse, the fiscal rules were loosened in "good" economic times. Additionally, due to the monetary union states lost their tools of economic equilibrium policy in order to deal with the shocks and the economic crisis.

2. The EU takes one step forward – Establishment of the European support mechanisms

The Eurozone was designed without any provision of a financial assistance mechanism to deal with the moral hazard (Osman, 2012) as opposed to the EU, which provides the BoP[11] assistance to the non-Euroarea member

[6] It is noted that the absence of certain circumstances can be addressed by the creation of a common budget (social transfers), which is the core of the confederalization. The EU budget amounts to 1.5% of the EU GDP compared to the USA budget, which amounts to 33% of the national GDP.

[7] A recent study (Gáková and Dijkstra, 2010) proved that the US workforce mobility from state to state is about 3%, whereas that of the EU is only 1.2% even during the crisis.

[8] A recent study (Antonakakis, Chatziantoniou and Filis, 2015) showed that the expansion of the debt crisis in the Eurozone can be explained by the business cycle crisis in regional countries (spillover effect). The debt crisis resolution can be achieved through a right macroeconomic policy, which will aim at the stabilization of regional economies and their economic development.

[9] According to the analysis of credible economists (Degiannakis, Duffy and Filis, 2014), the EU member states and even more these of the Eurozone have neither similar business cycles nor a sufficient community budget and as a result there are serious problems for them in dealing with the crisis.

[10] The ECB is not allowed by its statute to become a lender of last resort.

[11] The Balance of Payments (BoP) allows the non-Euroarea member states to be granted medium-term loans in order to cover their financial needs. Recently, Romania, Latvia and Hungary –in cooperation with the IMF– made use of this assistance programme. However, the size of the mechanism is quite limited in case of a general crisis.

states; a mechanism with quite limited financial potential, though. However, when the debt crisis problem arose, the EU responded very fast –at least, according to its standards– to the exclusion of Portugal, Ireland and Greece from markets. The borrowing cost of these countries soared after 2008, as Chart 4 confirms, so that any public debt refinancing and state budget primary deficit covering became impossible. The EU established in May 2010 the European Financial Stabilization Mechanism (EFSM)[12] and in June 2010 the European Financial Stability Facility (EFSF)[13], which stopped its operations in June 2015, for it was succeeded since October 2012 by the European Stability Mechanism (ESM), which is a permanent support mechanism with a share capital of 60 billion euros. One of the differences between the EFSF and the ESM is that while the former constitutes a company having states as shareholders, being subject to private law and being located in Luxemburg, the latter is an intergovernmental organization, something much more than a company even at a semantic level for the prestige of the Eurozone and the process of its political deepening. Moreover, while the establishment of the EFSM is provided by the EU treaties and it can grant loans under the EU budget guarantee, the establishment of the EFSF and the ESM, on the contrary, is not provided by the treaties and the way of their granting loans is completely different from that of the EFSM. The aim of these mechanisms is to secure the EMU financial stability by supporting the Euroarea member states. Charts 5 and 6 and 7 show where the funds of rescue mechanisms have channeled into. Chart 7 confirms the fact that the EFSF granted Greece the biggest financial assistance, whereas rest countries were granted less funds. It is noted that the joint financial assistance provided by the EFSM and the ESM was about 700 billion euros.

Chart 8 presents the change in interest rate spreads from June 2012 till February 2013 –using the German government bond rate as a benchmark– the period during which strong interventions were made towards the support of countries like Greece and Portugal. As it is easily understood, the EU's establishment of support mechanisms changed the adverse situation of the governments in terms of financing their own obligations and appeased the markets, while all the countries that were in bailout programmes, except for Greece, are now borrowing from the international markets.

The present debt crisis highlighted an innate weakness of the Eurozone, which is the absence of financial assistance mechanisms for the Euroarea member states. On the other hand, the EU responded very quickly to the rising problem and established three mechanisms. Currently, the lending capacity of these mechanisms is about half a trillion euros, while until now 368.5 billion euros have been granted. Table 4 presents the amounts that each mechanism lent to Euroarea member states.

3. The conservative ECB and the change of tack

[12] The EFSM was established by the 28 EU member states in May 2010. Its lending capacity amounts to 60 billion euros, which are under the EU budget guarantee. The EFSM provided financial assistance to Portugal and Ireland with 26 and 22.5 billion euros respectively, while in July 2015 it granted Greece a seven billion euro bridge loan.

[13] The EFSF was established exclusively by the 17 Eurozone member states. Its lending capacity amounts to over 450 billion euros. The EFSF granted Ireland a 17.7 billion euro loan, Portugal a 26 billion euro loan and Greece a 130.9 billion euro loan.

The ECB is a conservative bank, since its fundamental task lies in maintaining price stability, that is keeping a low inflation rate[14], while according to the theoretical controversy of central bankers “Rules vs Discretion” (Barro and Gordon, 1983, Gordon and Leeper, 2006), the ECB was in favor of rules and against discretion contrary to other banks, like the US Federal Reserve (FED), in which price stability is associated with growth and employment. The ECB was built on Bundesbank model and thus it must not be considered accidental that its headquarters are in Germany. Perhaps it is more conservative than Bundesbank itself. The innate weakness of the Eurosystem to deal with the debt crisis is noticed from the difference in the evolution of Spain’s and UK’s bond prices. While Spain’s macroaggregates were in much better situation than those of the UK (De Grauwe, 2011), the borrowing cost for Spain rose during the crisis, whereas for the UK remained constant and then fell, as depicted in Charts 9 and 10. This happened because markets took for granted that the ECB would have difficulty in assisting Spain, as opposed to the Bank of England (BoE) that responded immediately by using monetary policy instruments to deal with a potential liquidity crisis of the UK government.

But, did the ECB really stay inactive during the economic crisis? The ECB shifted the monetary policy after the crisis from the initial target of price stability to the targeted fight against the output gap. The ECB often exceeded its powers[15] in order to restrain the debt crisis (Pronobis, 2014). The ECB used standard monetary policy instruments for crisis management, such as the open market operations[16]. However, the crisis was not possible to be addressed only by standard instruments and as a result the ECB used to a large extent non-standard financing instruments, mainly through asset purchase programmes[17] (APP), since the monetary policy transmission mechanism was disrupted due to dysfunctions in market segments.

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[14] According to article 127 (1) TFEU of the Lisbon Treaty, the ESCB’s fundamental task lies in maintaining price stability.

[15] According to article 123 of the Lisbon Treaty, which replaced article 104 of the Maastricht Treaty, “overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.” The importance of article 123 should be reminded throughout the discussion for the ECB’s attitude and involvement in the debt crisis resolution process.

[16] The open market operations are short-term (main refinancing operations – MROs) and long-term (long-term refinancing operations – LTROs), while the ECB’s biggest move was a three-year LTRO programme of one trillion euros in December 2011 and February 2012.

[17] The non-standard financing instruments are used when the monetary policy cannot be implemented through standard financing instruments, namely in periods of economic crisis and financial instability. Such instruments are the following: a) the covered bond purchase programme (to date, two programmes have been completed –the CBPP1 and the CBPP2– and on 04.03.2015 the ECB decided to launch a third programme, namely the CBPP3), b) the asset-backed securities purchase programme (ABSPP), c) the secondary market public sector purchase programme (in fact, the PSPP is the quantitative easing programme which was decided by the ECB Governing Council on 22.01.2015 and was specified by the EU decision 2015/774), d) the bond repurchase programme (OMT), e) the security purchase programme (according to Eurosystem evidence, the ECB possesses through the SMP programme Spanish, Italian, Portuguese and Greek government bonds worth about 218 billion euros. The asset-backed securities and the cover bonds are used for the banking system liquidity support.

On 26.07.2012, during the Global Investment Conference in London, Mario Draghi stated that “the ECB is ready to do whatever it takes to preserve the euro.” The reality confirmed that the ECB, in cooperation with the other EU bodies, exceeded itself. It took decisions that surprised the international community. The quantitative easing program announcement on 22.01.2015 –a government bond purchase programme of 60 billion euros per month till September 2016 (over one trillion euros in total)– impressed even the most optimist politicians and economists.

It can be said that, according to the ECB statute, the interventions of the central bank moved across and maybe beyond the borderline of its territory as far as the direct and indirect financing of states and financial institutions is concerned. Nevertheless, its decisions were not contrary, but according to the political decisions made by the Euro Summits. It is no surprise that the Court of Justice of the European Union (CJEU), through a broad and progressive interpretation of the Treaty on the Functioning of the European Union (TFEU), ruled in favour of the ECB with its judgment in case C-62/14, concerning secondary market government bond purchases for countries with serious financing problems, which actually means indirect financing of governments. This judgement also paved the way for the quantitative easing programme (Quantitative Easing – QE). It is noted that the action against the ECB was brought by the Federal Constitutional Court of Germany, which, based on its own judgments, ruled that the ECB’s interventions were illegal.

The ECB in cooperation with the European Commission (EC) contributed to all government support programmes. A decision of great importance for Greece was that of the Eurogroup on 21st February 2012, which stated that the ECB in association with the European central banks that possess Greek government bonds (SMP and ANFA holdings) will return these bonds to Greece in their purchase value and not their nominal value. This decision meant for Greece 6.3 billion euros net profit.

Additionally, in 2012 and 2015 the ECB provided the Greek banking institutions, through the Emergency Liquidity Assistance (ELA), with a liquidity support of over 100 billion euros, even though there was no bailout programme and only with the prospect of signing one in order for them not to collapse. Due to these choices the ECB was accused by several economists of operating as a lender of last resort as well as of putting in danger its solvency by supporting the Greek banking system, while it has been recommended that the ECB’s decisions and their rationale should be clear and well-grounded.

According to the ECB report (2015), banks have lowered the credit rating level for granting loans to businesses and individuals by 13% since the beginning of 2015 so as to increase the number of granted loans and boost the liquidity in an environment of monetary policy easing, given that some countries of the Eurozone are even now still in deflation (July 2015 – Greece: 2.2%).

Finally, the need for the ECB to take officially the role of the last resort lender is stressed, while it is recommended that more active policies must be forwarded in order that Euroarea avoids asymmetric business cycles (De Grauwe, 2013).

All the aforementioned evidence clearly demonstrate that the ECB had serious weaknesses in dealing with the crisis, which emanate from its statute, its targets, its available tools and its conservatism that many ECB officers supported. The crisis restraining mechanisms were limited and the standard mechanisms were not adequate to deal with the problem. Despite its weaknesses, the ECB managed to keep the Eurozone alive and banks well recapitalised and firm, while there was also an obvious support to governments facing problems[18]. All these achievements were made by using instruments, programmes and mechanisms that were agreed at political level and implemented at techno-monetary level. Now the challenge for the ECB is to act in such a way that it reduces the output gap and enhances the consumer instinct trust (De Grauwe and Macchiarelli, 2015).

4. The road towards the European Banking Union

The government support to banks led many countries to the dramatic increase of their public debt, while the fear of crisis transmission from one country to another restricted cross-border bank activities, thus slowing down growth and confining commerce strictly to national markets. The fragmentation in all parts of the chain, like in the financial markets, hinders growth, commerce and cooperation (Farhi and Tirole, 2014). The EU should have acted immediately in order to deal with the financial fragmentation, the uncontrolled European bank sector and the serious divergences in bank resolution and supervision rules, which led to lack of trust and market instability. The European Council of Heads of State and Government in cooperation with the European Parliament, the European Commission and the European Central Bank took a series of decisions[19][20] which enhance the ECB's supervisory role[21], while they also set the institutional pillars required for the banking union.

The starting point was the common decision taken by the Ecofin and the Eurogroup on 18.12.2013, when they agreed the establishment of the Single Supervisory Mechanism (SSM), which was put in force on 04.11.2014. The ECB will supervise through the SSM 130 financial institutions, which represent 85% of the Eurozone financial system assets. In this way, the bank sector's safety and robustness gap is covered, while financial solvency and banking integration at European level are also promoted (Magnus, Backman, Power, 2015).

Furthermore, the European Parliament voted for and established the Single Resolution Mechanism (SRM) in April 2014, which will be put in force on 01.01.2016, after the EU bank recovery and resolution directive (BRRD)[22]

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[18] The ECB purchased from the secondary market until the end of 2012 government bonds and provided assistance to banking institutions with the total sum of 320 billion euros, which equalled 3.5% of the Eurozone GDP, as opposed to FED and BoE, whose interventions in the US and UK economies equalled over 25% of their GDP.

[19] Council Regulation (EU) No 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions – Text with SSM relevance

[20] Regulation (EU) No 806/2014 of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 – Text with SRM relevance

[21] The national central banks were charged until recently with the supervision of the national banking institutions.

[22] Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions – Text with EEA relevance

has been adopted by all member states. The SRM's operation will be supported by the Single Resolution Fund (SRF). The SRF should reach at least 1% of the amount of covered deposits of all credit institutions authorised in all the banking union member states –which is estimated to be around 55 billion euros– and it is going to be built up over a period of eight years. In fact, the bank resolution financial burden shifts from national resources to a supranational fund (Lekkos and Leventakis, 2014). Through the banking union, the bond between the financial institutions bailout and the public debt –that is the substantial reason for the European debt crisis– is broken, while the first step for minimizing the borrowing cost difference, which hindered to date competition and growth, is also taken. The banking union will enhance the trust to the banking industry, shrink the fragmentation in the financial sector and reduce dramatically a bank-run risk.

Finally, as far as the banking union is concerned, there was an agreement in April 2014 on the reform of the directive which provides the harmonisation of the national deposit guarantee schemes[23].

The banking union in association with the rescue mechanism establishment opens the discussion about the official, namely the institutional, transformation of the ECB into a lender of last resort (Xafa, 2015). Goodhart and Schoenmaker (2014) have argued for the need of the ECB financing states, although, as was mentioned above, it is formally not allowed to do so by its statute. Actually, however, this has been the case several times during the crisis.

5. The fiscal governance and the democratic legitimacy

During the crisis, the Eurozone spread the panic of the financial markets to the political governance through strict austerity and fiscal consolidation packages, while the countries that implemented these packages were little benefited. Moreover, economic governance reforms took place in the Eurozone due to the economic crisis and under the massive pressure of the international markets and the government financial needs. Since 2010's revision of the Stability and Growth Pact (SGP) a number of measures have been taken, with the so-called "Two Pack"[24] –which is an evolution of a series of proposals known as the "Six Pack"[25] – being their flagship. The "Six Pack" provides the strengthening of surveillance and assessment for the states in receipt of financial assistance, for those that are subject to an excessive deficit procedure and for those that are experiencing serious financial difficulties. Furthermore, both the preventive and the corrective

[23] Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes – Text with EEA relevance

[24] The decision 6866/13 refers to a package of measures known as "Two Pack", which includes: a) a regulation on enhanced surveillance of Euroarea member states that are experiencing or threatened with serious financial stability difficulties, b) a regulation on enhanced monitoring and assessment of draft budgetary plans of Euroarea member states, with closer monitoring for those in an excessive deficit procedure.

[25] The EC issued six legislative proposals on 29.09.2010 relating to the reform and enforcement of the budgetary surveillance framework, the establishment and enforcement of a new surveillance framework to identify and correct emerging macroeconomic imbalances, and the harmonisation and strengthening of national budgetary frameworks.

arm of the SGP were revised towards a stricter direction by introducing the adoption of national fiscal rules, the prevention and the correction of macroeconomic imbalances and the intensification of deviation sanctions. The change in the government budget approval process is a typical example. More specifically, each member state will have to submit its draft budget for the following year by 15 October annually, namely before submitting it to the national parliament. If the EC has any objection about the draft budget then the government will have to revise it, while it is also provided that the states experiencing severe financial disturbance will come under enhanced surveillance and will also be compulsorily subject to a macroeconomic adjustment programme.

Several economists criticised these reforms (Blanchard and Leigh, 2013), since the produced outcomes are inevitably associated with austerity programmes, while there is also a political problem concerning the infringement of the democratic principle "no taxation without representation"[26]. Additionally, they pointed out the essential difference between legal force and political legitimacy. Actually, they argue about the ability provided to the EC to enforce the adoption of new taxes or expenditure cuts from national governments, because in this way the fundamental principles of democratic legitimacy are undermined. According to De Grauwe & Yuemei Li (2013), as well as depicted in Chart 11, the higher the spreads the more intense the austerity measures were, something that seems quite as a punishment or penalty. Moreover, in the same study it can be figured out that the larger the austerity packages the higher the recession was, as it is also depicted in Chart 12.

At the EU level, the member states co-signed on 01.03.2012 the intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), while on 01.01.2013 the Fiscal Compact –the TSCG fiscal component– entered into force.

Since the beginning of the crisis as well as more recently –due to the strict austerity measures that accompanied bailout programmes– many economists (Wyplosz, 2015) have accused the EU of imposing infeasible requirements to countries that have no other choice to follow, which, according to them, is something fundamentally irrational and antidemocratic. In fact, the view that a country could be forced by another to take steps that it does not want to take is a violation of the EU democratic principle that all countries are equal.

6. Reflections

The taboos of the European politicians about particular choices create serious problems to the economic integration and political deepening process. One typical example is the Eurogroup that although it takes the most important decisions, it does not have any legal or institutional status. Actually, it is an informal body with no minutes taken at its meetings, while its decisions define at least the future of the euro and the Eurozone.

Likewise, the ECB Governing Council's arbitrary way of setting the inflation target under 2% not only it does not secure the stable and sustainable growth, but rather confirms the imposition of personal obsessions at the expense of a really progressive economic policy.

[26] Those who decide to impose a tax should bear the political cost of this decision, which is to publicly account for it.

Furthermore, the amounts allocated by the European budget do not help essentially in the economic integration and political deepening of the EU member states and even more of the Eurozone member states. The fiscal union, through a strong EU budget, is far from the present reality. The structural funds, the Cohesion Fund, the European Investment Bank and other institutions help countries that undergo asymmetric shocks deal with them, but the amounts directed to these countries are too small[27]. The amount of 33 billion euros granted by the structural funds and that of 27 billion euros granted by the European Investment Bank cannot be seriously considered as an effective instrument for combating an asymmetric economic shock. Typically, the USA government federal budget equals 25% of the national GDP, while the EU budget equals less than 1.5% of the European GDP.

7. Conclusions

The monetary union is something much more than a single exchange rate and a central bank. The loss of the sovereign monetary policy making is only one of the consequences for a country entering the common currency. The investors reacted faster than the cumbersome European governments and the absent European mechanisms, thus leading many countries to economic suffocation. The resolution of the “moral hazard” problem was not enough to prevent the debt crisis from spreading to several Eurozone member states. Both the EU and the ECB reacted in a multilevel way to address the crisis, through the creation of rescue mechanisms and emergency support programmes. A monetary union can work successfully as long as there is a single support and supervision mechanism at fiscal and banking level. Such mechanisms are provided by the political union, which is deeper than the economic union. These mechanisms were absent in the EU and due to the crisis they became gradually piece of the “euro-confederalisation” puzzle. However, their size, response speed and overall function continue to raise doubts about whether they can guarantee the Eurozone’s and the EU’s survival (De Grauwe and Li, 2015).

[27] In order to be more easily understood the asymmetric shock cost and the need for smoothing out business cycles in the Eurozone member states, a typical finding from a recent study is given, (Antonakakis, Chatziantoniou, Filis, 2015) which prove that 80% of the business cycle shock in the EU member states are caused by the “spillover effect”, that is the shock dispersion from the rest EU member states.

8. Appendix: Charts - Tables

Chart 1: GDP at current prices

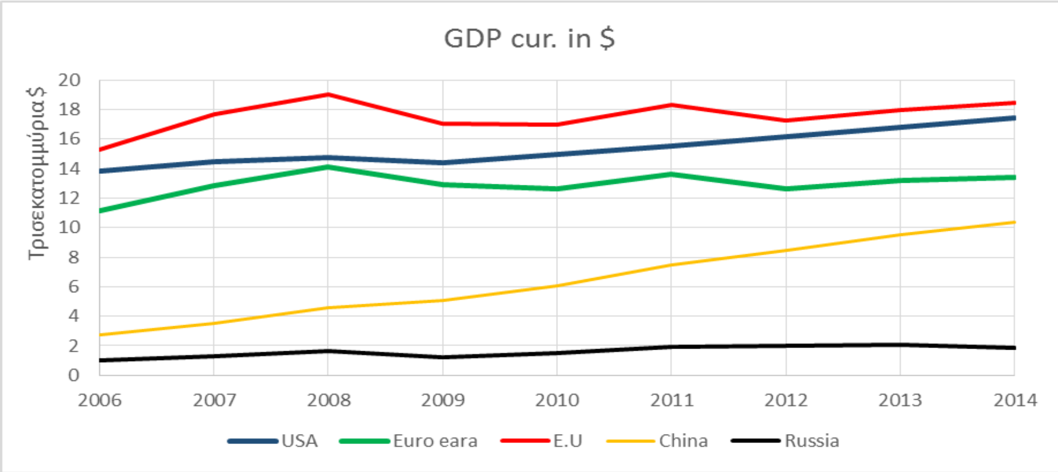


Chart 2: Growth rate

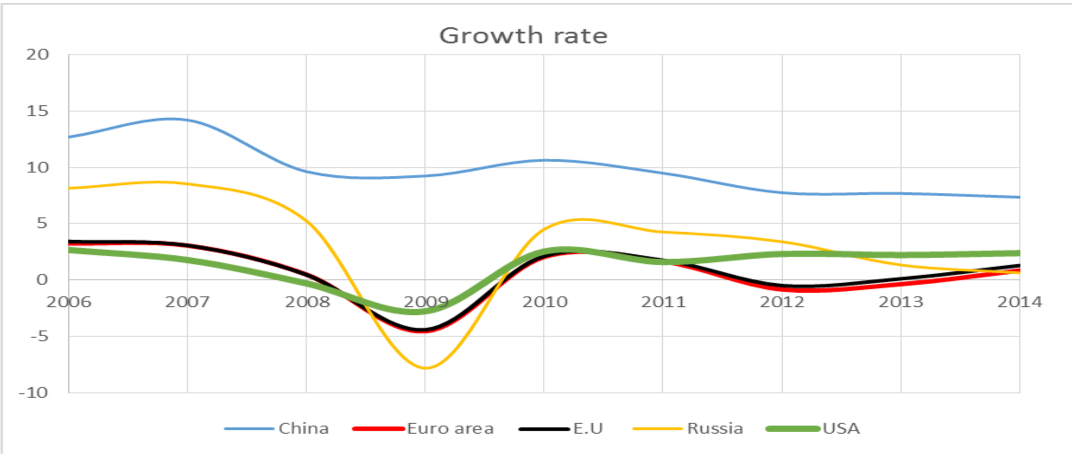


Chart 3: Unemployment rate

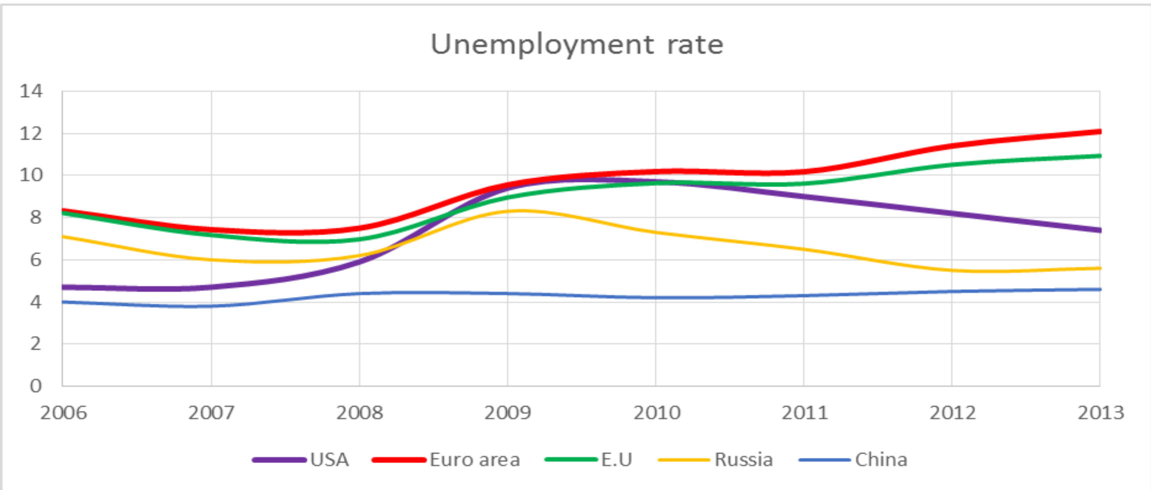


Chart 4: Interest rate spreads for Eurozone member states

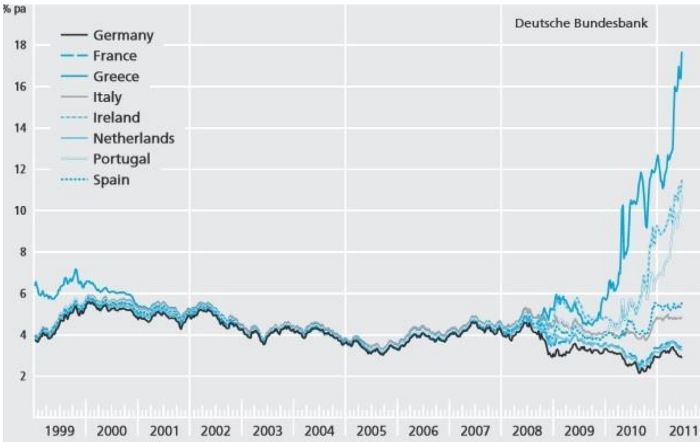
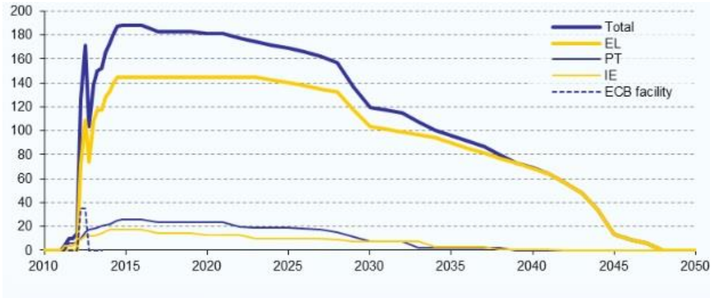
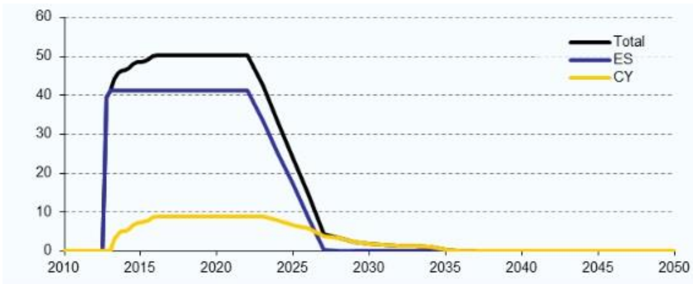


Chart 5: EFSF loans



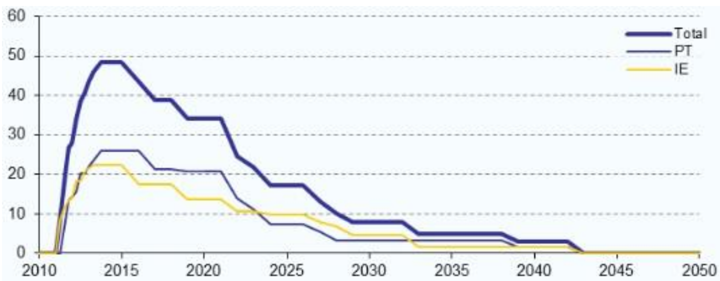
Source: European Commission, EFSF and own calculations (bn euros on Y-axis, years on X-axis)

Chart 6: ESM loans



Source: European Commission, ESM and own calculations (bn euros on Y-axis, years on X-axis)

Chart 7: EFSM loans



Source: European Commission and own calculations (bn euros on Y-axis, years on X-axis

Chart 8: The change in spread from June 2012 until February 2013

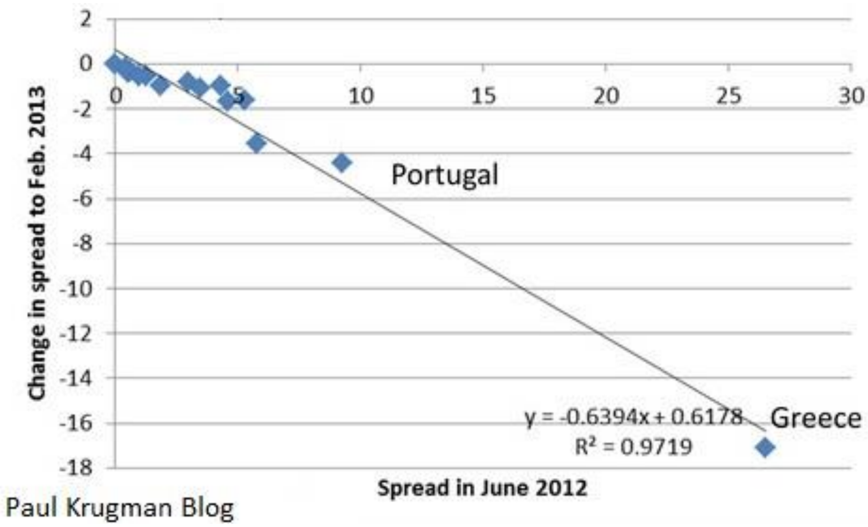


Chart 9: Interest rates of Spain and UK government bonds

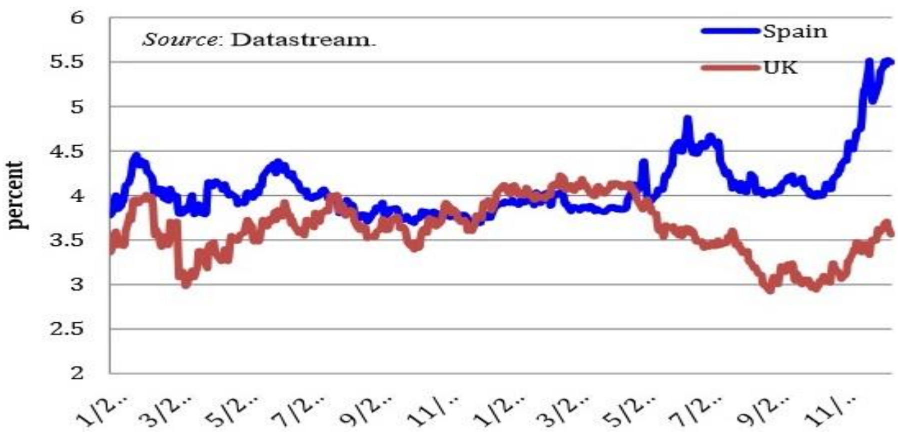


Chart 10: Spain and UK government debts

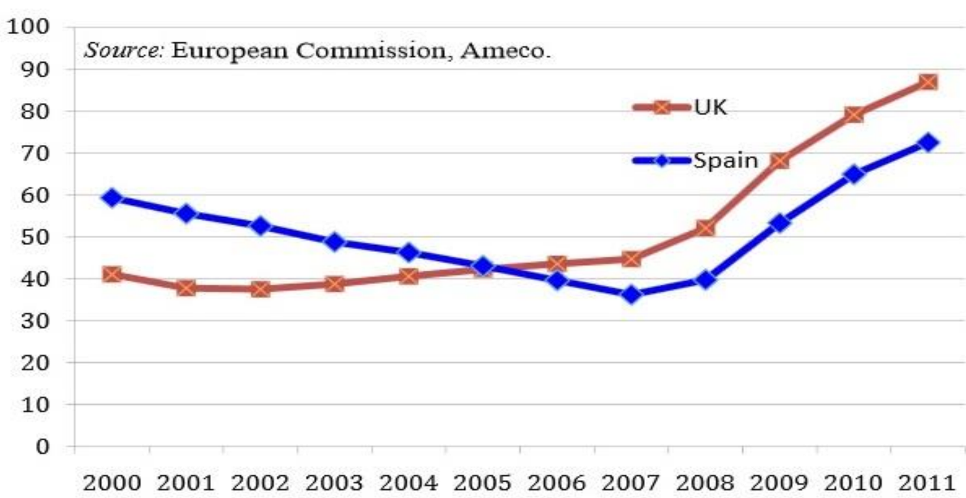


Chart 11: Austerity measures and spread levels

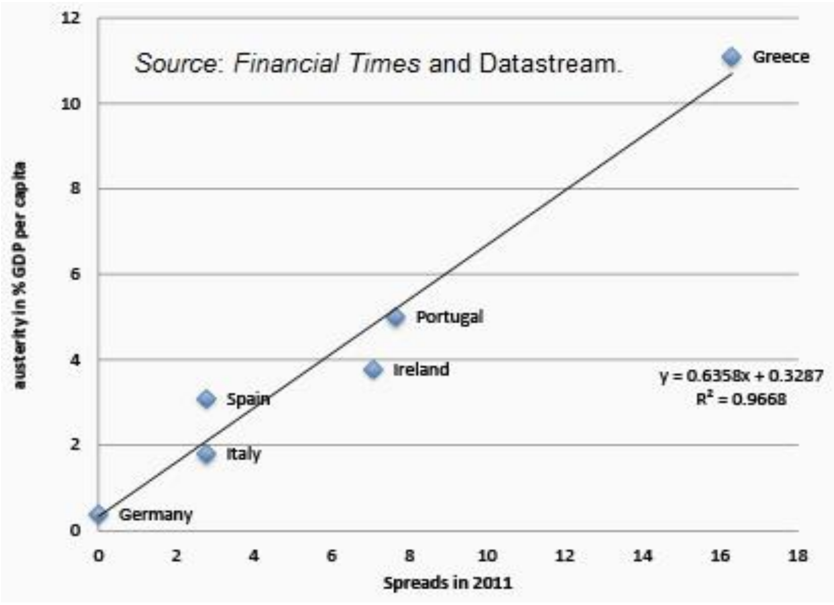


Chart 12: Austerity measures and growth rate

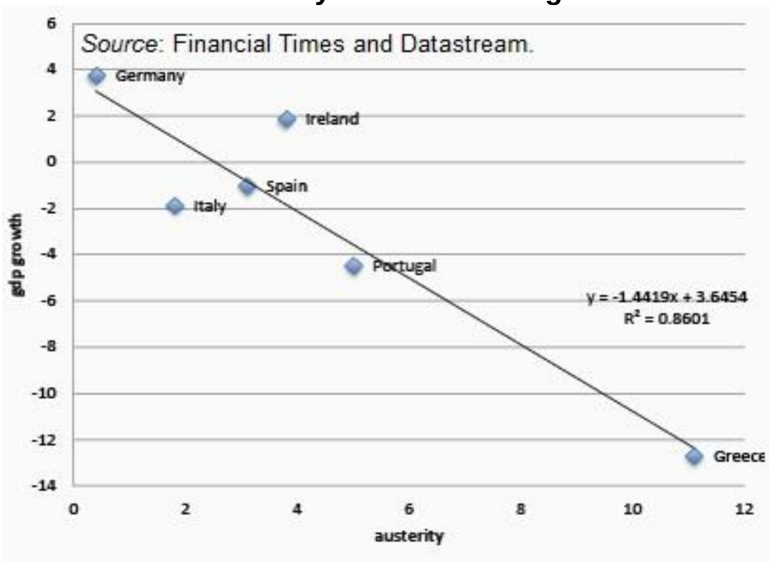


Table 1: GDP at current prices

GDP $	USA	Euroarea	EU	China	Russia
2006	13,855,888,000,000	11,171,913,753,944	15,277,153,474,532	2,729,784,031,906	989,930,542,279
2007	14,477,635,000,000	12,865,170,227,278	17,666,078,553,517	3,523,094,314,821	1,299,705,764,824
2008	14,718,582,000,000	14,104,469,320,998	19,012,781,861,265	4,558,431,073,438	1,660,846,387,625
2009	14,418,739,000,000	12,898,241,885,261	17,005,366,281,318	5,059,419,738,267	1,222,644,282,202
2010	14,964,372,000,000	12,635,364,066,139	16,937,824,892,179	6,039,658,508,486	1,524,917,468,442
2011	15,517,926,000,000	13,621,651,189,769	18,310,001,820,621	7,492,432,097,810	1,904,793,932,483
2012	16,163,158,000,000	12,642,794,345,501	17,232,152,914,473	8,461,623,162,714	2,016,112,133,645
2013	16,768,053,000,000	13,186,281,579,559	17,950,130,244,943	9,490,602,600,148	2,079,024,782,973
2014	17,419,000,000,000	13,402,747,137,991	18,460,645,625,272	10,360,105,247,908	1,860,597,922,763

Source: World Bank

Table 2: Growth rate

Growth	China	Euroarea	EU	Russia	USA
2006	12.68823	3.258509	3.422497	8.153432	2.666626
2007	14.19496	3.060461	3.075478	8.53508	1.77857
2008	9.623377	0.494562	0.479147	5.247954	-0.29162
2009	9.233551	-4.54355	-4.41129	-7.82089	-2.77553
2010	10.63171	2.053446	2.124739	4.503726	2.53192
2011	9.484506	1.66137	1.761179	4.264177	1.601454
2012	7.750298	-0.82858	-0.49113	3.405547	2.321085
2013	7.68381	-0.36473	0.117218	1.340798	2.219308
2014	7.351	0.851212	1.294461	0.640486	2.388227

Source: World Bank

Table 3: Unemployment rate

Un.Rate	USA	Euroarea	E.U	Russia	China
2006	4.7	8.324359	8.221834	7.1	4
2007	4.7	7.43085	7.175679	6	3.8
2008	5.9	7.498431	6.972234	6.2	4.4
2009	9.4	9.551122	8.956025	8.3	4.4
2010	9.7	10.18412	9.6352	7.3	4.2
2011	9	10.17533	9.611461	6.5	4.3
2012	8.2	11.40159	10.51036	5.5	4.5
2013	7.4	12.0867	10.93022	5.6	4.6

Source: World Bank

Table 4: amounts that each mechanism lent

Mechanism/ Country	**Greece**	**Cyprus**	**Ireland**	**Portugal**	**Spain**
EFSF	130.9	0	17.7	26	0
ESM	86	9	0	0	41.3
EFSM	7.16	0	22.5	26	0
Total	**224.06**	**9**	**40.2**	**52**	**41.3**

Source: www. europa.com

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