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The coordination of anti-crisis policy in the EU

Streszczenie

Koordynacja polityki antykryzysowej w UE

Od 2008 r. Unia Europejska przeżywa najpoważniejszy kryzys, a obecna sytuacja w strefie euro jest daleka od stabilnej. Kryzys w strefie euro okazał się nie tylko kryzysem gospodarek państw członkowskich (Grecji, Irlandii, Hiszpanii i Portugalii), lecz także kryzysem mechanizmu integracji. Kryzys w strefie euro połączył się ze współczesnym kryzysem uchodźców. Dla opracowania skutecznych metod walki z kryzysem i zapobiegania przyszłym kryzysom obecne reformy powinny obejmować nie tylko zmiany w polityce poszczególnych państw członkowskich, lecz także w mechanizmie integracji europejskiej. W szczególności dotyczy to polityki gospodarczej, wzniesionej na poziom instytucji UE, która wpływa na politykę gospodarczą poszczególnych państw członkowskich. Tak więc głównym celem tego artykułu jest odpowiedź na pytanie, jakie zmiany powinny być dokonane w UE u jej państw członkowskich, żeby przezwyciężyć obecny kryzys i zapobiec jego wystąpieniu w przyszłości. Doświadczenie czerpane ze współczesnego kryzysu strefy euro powinno doprowadzić do zmian instytucjonalnych UE, żeby zapewnić lepszą koordynację polityki antykryzysowej pomiędzy państwami członkowskimi.

Ogólnie biorąc, dotychczasowe doświadczenie wskazuje na to, że walka z kryzysem w UE powinna być realizowana za pośrednictwem efektywnej koordynacji pomiędzy państwami członkowskimi. Taka strategia może być stosowana zarówno wobec kryzysu uchodźców, jak i wobec kryzysu gospodarczego w strefie euro. Jednak do tej pory rozwiązania UE wydają się zbyt ogólne, żeby osiągnąć skuteczną koordynację pomiędzy państwami członkowskimi. Jeśli chodzi o kryzys gospodarczy, przede wszystkim polityka finansowa powinna zapewnić odpowiednią regulację i nadzór nad rynkami finansowymi. Propozycja powołania unii bankowej powinna minimalizować potencjalne koszty błędów bankowych i interwencji finansowych w życie mieszkańców państw członkowskich, dlatego powinna ona obejmować co najmniej

trzy elementy: nadzór, wydawanie zezwoleń i wspólną ochronę finansową. Prawdopodobnie prawdziwa unia bankowa w strefie euro będzie nieefektywna, dopóki nie będzie jej towarzyszyć koordynacja polityki gospodarczej i unia fiskalna pomiędzy partnerami. Dwie najważniejsze polityki gospodarcze: polityka monetarna i fiskalna powinny być skoordynowane, żeby zapobiec finansowym kryzysom w przyszłości i lepiej reagować na szerokie spektrum wskaźników stabilności makrofinansowej. Polityka strukturalna nakierowana jest na zapobieganie kryzysowi finansowemu, osiąganie znacznej elastyczności rynków, żeby zapewnić stan, gdy wskaźniki makroekonomiczne pozostają stabilne. Może to obejmować działania na rynku pracy (zwiększenie jego elastyczności), interwencje na rynku produktów (w przypadku wysoko wartościowych branży przemysłu), wspieranie bilansu płatniczego. Koordynacja fiskalna nie musi oznaczać całkowitej unifikacji wszystkich budżetów narodowych w jeden budżet ponadnarodowy. Skoordynowana polityka fiskalna może obejmować tylko niektóre standardy fiskalne oraz wspólne zasady, które będą dotyczyć wydatków w przypadku spadku gospodarczego. Taka koordynacja pomoże uniknąć stosowania kontrowersyjnych środków i negatywnych czynników zewnętrznych oraz zapewnić odpowiednią politykę stabilizacji dochodu dla całej strefy euro. Wszystkie te działania pomogą zapobiec przyszłym kryzysom w strefie euro, jednak nawet najlepszy system prewencyjny może okazać się nieskuteczny. Rozporządzenie antykryzysowe w strefie euro jest zestawem wskaźników dla państw członkowskich, dotyczących wyjścia ze współczesnego kryzysu. Rozporządzenie antykryzysowe nie zawiera konkretnych dat wystąpienia z kryzysu dla wszystkich państw, a raczej określa kierunek następnych kroków i warunków, jakie muszą zostać spełnione. Może się wydawać, że kryzys w strefie euro został całkowicie rozwiązany i nie powtórzy się w przyszłości, jeśli zostaną dokonane zmiany ram instytucjonalnych UE, co zapewni lepszą koordynację partnerskich polityk gospodarczych. Wszystkie zaproponowane reformy i kroki, które mają przeciwdziałać kryzysowi w strefie euro, są komplementarne: integracja monetarna wymaga węższej integracji fiskalnej, polityki pomocy finansowej Europejskiego Banku Centralnego są zdefiniowane w bardzo wyraźnych granicach, integracja fiskalna wymaga powołania unii bankowej. W ogóle, UE powinna wprowadzić rząd gospodarczy w tej czy innej postaci, który będzie w stanie skutecznie koordynować politykę fiskalną z polityką monetarną Europejskiego Banku Centralnego. W przyszłości tylko pod warunkiem poprawnego połączenia monetarnej polityki Europejskiego Banku Centralnego z politykami fiskalnymi państw członkowskich będzie możliwe wprowadzenie efektywnego mechanizmu, który będzie przeciwdziałać spadkowi gospodarczemu w państwach członkowskich i regulować go.

Słowa kluczowe: kryzys Euro, kryzys uchodźców, program zmniejszenia wydatków rządowych, koordynacja polityki gospodarczej, reformy instytucjonalne, polityka strukturalna, dług publiczny, deficyt budżetowy, reforma bankowości

Резюме

Координація антикризової політики у ЄС

Від 2008 р. Європейський Союз переживав найбільш сувору кризу, а теперішня ситуація у Єврозоні далека від стабільної. Криза Єврозони виявилась бути не лише кризою економік країн-членів (Греції, Ірландії, Іспанії і Португалії), але також кризою меха-

нізму інтеграції. Криза у Єврозоні поєдналась з останньою кризою біженців. Щоб розвинути ефективні методи боротьби з кризою і запобігти майбутнім зривам, теперішні реформи повинні покривати не лише зміни у політиці окремих країн-членів, але також у механізмі Європейської інтеграції. Особливо це стосується економічної політики, винесеної на рівень інститутів ЄС, яка впливає на економічну політику окремих країн-членів. Таким чином головною метою статті є відповідь на питання, які зміни повинні бути зроблені у ЄС і її країнах-членах щоб здолати теперішню кризу і запобігти її появі у майбутньому. Уроки, які ми почерпнули з сучасної кризи Єврозони повинні привести до інституційних змін ЄС, щоб забезпечити кращу координацію антикризової політики поміж країнами-членами.

У цілому попередній досвід вказує на те, що боротьба з кризою в ЄС повинна здійснюватися за посередництвом ефективної координації поміж країнами-членами. Цю стратегію можна застосувати, як до кризи біженців, так і до економічної кризи у Єврозоні. Проте до цих пір пропозиції ЄС здаються бути занадто загальними, щоб досягнути ефективного координування поміж країнами-членами. Якщо мова йде про економічну кризу, передусім фінансова політика повинна забезпечити відповідне регулювання і нагляд за фінансовими ринками. Запропонований союз банків у Єврозоні повинен мінімізувати кошти можливих банківських невдач та фінансового втручання в життя мешканців країн-членів, тому він повинен включати щонайменше три елементи: нагляд, видання дозволів і спільну фінансову заслону. Справжній банківський союз у Єврозоні, мабуть, буде непрацездатним, поки його не буде супроводжувати координування економічної політики і фіскальний союз поміж партнерами. Дві найважливіші економічні політики: монетарна і фіскальна політика повинні бути координовані, щоб запобігти фінансовим кризам у майбутньому і краще реагувати на широкий спектр показників макрофінансової стабільності. Структурна політика, спрямована також на запобігання фінансовій кризі, досягаючи значної гнучкості ринків, щоб запевнити стан, коли макроекономічні показники залишатимуться стабільними. Це може включати дії на трудовому ринку(збільшення його гнучкості), втручання у продуктовий ринок (у випадку цінних галузей промисловості), підтримку платіжного балансу. Фіскальна координація не обов'язково означає загальну уніфікацію всіх національних бюджетів у один наднаціональний бюджет. Скоординована фіскальна політика може включати деякі фіскальні стандарти, а також спільні правила, які б стосувалися видатків у випадку економічного спадку. Така координація допоможе уникнути суперечливих заходів і негативних зовнішніх чинників, а також забезпечить відповідну політику стабілізації доходу для всієї Єврозони. Всі ці типи дій допоможуть запобігти майбутнім кризам у Єврозоні, але навіть найкраща система протидії кризі може зазнати невдачі. Антикризова резолюція у Єврозоні є дороговказом для країн-членів, щодо шляху виходу з сучасної кризи. Антикризова резолюція не включає оголошення фіксованих дат виходу з кризи для усіх країн, але скоріш визначає напрямок наступних кроків і умов, які треба виконати. Може здатися, що ця криза Єврозони була повністю вирішена і не повториться у майбутньому, якщо будуть здійснені зміни інституційних рамок ЄС, що забезпечить краще координування партнерських економічних політик. Всі запропоновані реформи і кроки, які мають протидіяти кризі у Єврозоні є взаємодоповнюючими: монетарна інтеграція вимагає більш вузької фіскальної інтеграції, політики фінансової допомоги Європейського Центрального Банку визначена у дуже чітких межах, фіскальна інтеграція вимагає банківського союзу. У загальному і в цілому ЄС повинен ввести у тій чи іншій формі економічний уряд, який буде здатний ефективно координувати фіскальну політику з монетарною політикою Європейського Центрального Банку. У майбутньому тільки за умов правильного поєднання монетарної політики Європейського Центрального Банку та фіскальних політик країн-членів буде можливим вести ефективний механізм, який запобігатиме і коригуватиме економічний спадок у країнах-членах.

Ключові слова: Євро криза, криза біженців, програма скорочення державних витрат, координація економічної політики, інституціональні реформи, структуральна політика, державний борг, бюджетний дефіцит. банківські реформи

Introduction

The European Union is experiencing the deepest economic and institutional crisis since its establishment. It is true that the crisis began in the United States, but it quickly spread also in the Member States of the EU and the euro area. Fast crisis ran from the global economy, from the external environment to the four euro area member countries — Greece, Spain, Ireland and Portugal. In addition to some of the common features of the global crisis, the crisis in the euro zone had some specific features. Current EU is experiencing additional crisis with a huge influx of refugees. The crisis in the EU became not only the economic and financial crisis but also crisis of economic integration, its principles and organizational structures. Although the crisis in the euro zone has moved to Europe from the United States, it shows some specific features that are associated with the features of the European economy and its integration process. The State policy of social welfare and the structure of the European economy is a bit different in Europe than in the USA, hence in the UE countries it is harder to overcome the economic crisis. In addition to this, they have created a monetary union on different terms than in the USA, in the absence of a common fiscal policy and lower mobility of the workforce. Reforming the EU institutional framework to ensure that it generates sustainable growth and creates jobs remains a key challenge. The crisis in the euro area shows that business outlook of member countries is strictly interrelated with success or failure of monetary integration. The euro area must therefore exit from the crisis strengthened with new mechanisms to prevent its recurrence in the future.

Therefore, the main objective of this elaboration is to investigate the causes of crisis in the euro area and to seek the best methods for its overcoming. Because the crisis in the euro zone has its cause also in the integration processes, the author is looking for the causes of the crisis not only in the economic policy of the member states, but also in terms of EU institutional reforms. The crisis in the euro zone also has implications for countries which intend to join the zone, so the author tries to specify the future institutions' evolution of the euro area. Sources to overcome the crisis in the euro zone are to implement a better policy mix, including better coordination of fiscal policies of the Member States and its harmonious interaction with the monetary policy of the ECB. The author takes into account its analysis of determinants of the process of monetary integration and takes into consideration the experiences of the countries most affected by the economic crisis. Analysis of the crisis in the euro area is to serve the formulation of recommendations for the reform of the economic policy both within the EU as well as in the Member States in order to overcome the current crisis and avoid this kind of disruption in the future.

The most important reform we need to make EU countries overcome the crisis are changes in coordination mechanism. The European Commission called for example for fiscal policy coordination as well as binding limits on national budget deficit and public debts. Without that it is said that the EU cannot establish a policy mix appropriate for internal balance and overcoming the economic crisis. Simeoultaneously many euro area member countries raised demands on structural reforms and lessening the excessive austerity program. Budgetary consolidation carried out in varying degrees and pace for the individual Member States of the EU, however, has negative externalities, resulting in weakening their economic growth and difficulties with coming of the crisis. The social cost of adjustment programmes to restore the balance of equilibrium proved to be too high. To avoid similar problems in the future, the changes should include both the reform of the EU institutions and budgetary policy as well as the fiscal policies of individual member countries.

1. The EU economic and institutional crisis

The crisis in the EU is not only connected with an economic downturn in some member countries, but it is also a sign of the crisis reaching the EU integration mechanism. You can see it clearly in the case of inferiority of European institutions dealing with the refugee crisis. It seems that the main problem of European integration lies in the lack of effective coordination between the Member States, both in terms of political and social affairs, as well as when it comes to economic crises. Certainly crisis in the euro zone will not be overcome permanently without solution of the problem of external and internal unequilibrium between partners. The high debt in Greece, Portugal, Ireland and Spain is the default effect not only of internal economic policy, but also of the low ECB interest rates and easy debt financing by the European banks. The chances of success in structural reforms and obtaining permanent external and internal equilibrium in these countries are slim, if the euro area itself is not reformed. Global financial crisis has changed the perception of risk and the euro area does not have a reputation as an area of stability and credibility. Consequently, a crisis within the euro area is more costly than in the USA because of: *ad hoc* arrangement to extent credit rather than automatical, contagious and self-fulfilling panic, deeper economic recession in some EU Member States, mutual resentment between partners.

Historically an execution of economic and monetary policy takes place within the states which set up the national central banks by giving them the right to issue money on their territory. The national central banks are out of the collection of the foreign reserve assets, providing the national accounts, and carrying out foreign exchange. At the same time, governments are pursuing parallel fiscal policy which must be correlated with the monetary policy of the Central Bank. Although the National Central Banks are now autonomous institutions, they are simultaneously obliged to support the Governments in achieving the objectives of sustainable economic growth. However, the euro area does not have the institutional structure of the nation State to conduct coordinated fiscal and monetary policy. Although it has an independent European Central Bank seigniorage law, it has nineteen states partners, which shall keep separate and often conflicting economic policies. In this sense the EMU is a unique solution in the world economy since it connects together a uniform monetary policy with decentralized fiscal policy of member countries.

The present crisis in the euro area revealed that monetary integration has crossed the Rubicon towards more harmonized economic policy. Monetary integration simply does not work without further fiscal integration among Member States. More needs to be done to ensure better governance in the euro area to improve budgetary coordination or even partial budgetary unification. The common budgetary policy equipped with more resources with redistribution function might help the highly indebted countries to return to the path of economic growth. Countries of the euro area fell into debt crises relatively easily despite the Maastricht conversions criteria and Stability Pact. Because the number of euro area member countries is steadily increasing and they retain sovereignty over their fiscal policy, coordination between these two policies is becoming more and more difficult. To make the convergence criteria more obligatory partner countries have agreed to introduce more strict debt and deficit rules to be included in the law of Member States, but there is no guarantee that debt crises will not happen again. To escape from the current crisis and prevent the future one, there is no alternative but to elaborate a proper policy mix between monetary policy and fiscal policy at the European level. The latest crises have showed that the further transfers of national policy sovereignty from the Member States to supranational organs are necessary, so that the monetary and fiscal policies may be better coordinated, as they must be properly functioning in a currency union.

A key reason why a single currency works in the US and does not work so efficiently in the EU is the insulation provided by the federal fiscal system. In the euro area now there is a combination of decentralized national fiscal policy with centralized monetary policy. Budgetary policy in the euro area works primarily as an absorption function at the national level, and less at establishing of an optimal budget entirely spent on the EMU. On the other hand, managing a large monetary union in the EU should be straightforward like in the federal state. In a federal state like the US nobody linked the potential default of one state to the dollar functioning as a legal tender. For example, during the recent financial crisis the State of Illinois simply stopped paying 5 billion of its bills; California issued vouchers for wage payments. In both states there were cuts in public services. However, nobody envisaged a bail out financed solely by either the other US states or an exit from the monetary union. An analysis of the institutional manner in which the US deals with the crisis reveals federal country wide prudential rules for banks and Federal Reserve System as a lender of last resort.

The EU moved towards the EMU without giving it the ability to bail out public debts of partner countries and make transfers between them because of the prohibition of the Maastricht Treaty and limited size of its budget. In the EU there is not a common fiscal policy between partners, missing the top spot of the economic policy coordination, there are no suitable learning institutions to act as automatic stabilizers. In comparison between states of the USA it was easy to surrender monetary sovereignty because the cost of losing the monetary instrument was overwhelmingly dominated by the benefit of belonging to common fiscal area. When the state Michigan in the USA underwent an economic crisis like Greece in the EU, then the federal budget funds helped this state to come out of the crisis by a reduction in federal tax revenue and transfer of unemployment benefits for laid off workers. The central budget in the USA helps states by automatic stabilizers, that are not included in the EU mechanism of integration[1]. The need for the functioning of automatic stabilizers in the EMU arises from growing economic integration and the likely spillover effects, when budgetary policies in one Member State may have impact on the economies of other partner countries. More public spending in one or few countries may have positive impact in the from of the growth in import from partners carrying out the policy of stabilization of their public finances. On the other hand, austerity programs and reduced budgetary expenditure of some countries can have negative externalities on the growth of trade partners.

Therefore it seems desirable that monetary union in the euro area should be accompanied by a tight coordination of the fiscal policies of its Member States. The latest crises have showed that the further transfers of national policy sovereignty from the Member States to supranational organs are necessary, so that the monetary and fiscal policies may be better coordinated, as they must be properly functioning in currency union. More needs to be done to ensure better governance in the euro area to improve budgetary coordination or even partial budgetary unification. The common budget equipped with more resources with redistribution function might help the highly indebted countries to return to the path of economic growth. According to the calculation made by Sachs and Sala y Martin for every decline in every state income of 1 dollar the US Federal budget was able to transfer back 40%[2].

[1] M. Bleblavy, D. Cobhan, L. Odor, *The Euro Area and the Financial Crisis*, Cambridge 2011, pp. 341–343. C. Allegre, *Peut-on Encore Sauver L'Europe*, Paris 2011, pp. 153, 154.

[2] J. Sachs, X. Sala y Martin, *Federal Fiscal Policy and Optimum Currency Areas*, Cambridge, Maas. 1989.

It is worth adding that a famous report delivered by MacDougall for the European Commission predicted the gradual increase in resources transferred from the Members States to the common budget: from 2–2.5% of GDP in the prefederation stance to 5–7% in the period of "federation naissante" up to 20–25% in the structure of federation "bien etablie". The report also suggested that a Community budget equivalent to at least 7% of the GDP would be necessary to tackle 40% of existing inequalities among the European regions[3].

Euro area requires the Central Bank to take monetary decisions in the name of all economic subjects as well as to manage the substantial union — wide budget to transfer income from more successful to the less successful regions. Government borrowing should operate through a single union — wide bond market with borrowing determined by a decisive central authority. In the US Federal Reserve manages the union's monetary policy via a single bond market with borrowing belonging to the institutions of the federal states, while the borrowing of states and municipalities is constrained due to their inability to monetize their debt. It should be underlined that the ECB may not act efficiently as the Federal Reserve System in the USA or the Bank of England — lender of last resort in its own banking system. An analysis of the institutional manner in which the US or the Bank of England deal with the crisis reveals that countries-wide prudential rules for banks and Central Banks as a lender of last resort helped heavily indebted states or municipalities to escape the crisis.

A simple way to resolve the debt problems in such countries as Greece, Portugal or Spain would be of course possibility to bail out the debtor country debt with ECB money on the primary market. However, the Maastricht Treaty forbids the ECB from buying bonds on the primary market. If the US Federal Reserve System or the Bank of England can function fully as lenders of last resort, the ECB cannot. In the euro area the Maastricht Treaty *no bail out* clause implicitly assumes that a member country could become insolvent. In the US the default of a state is also possible whenever lower level governments are in financial trouble. Nevertheless the US federal system can print dollar to cover state debt but in the euro area the ECB cannot. The ECB can only intervene on the secondary markets. Several European governments have put pressure on the ECB to greatly increase its purchases of sovereign bonds that they regard as a possible solution to the debt crisis. Thus far the limited effects of intervention of the EFSF on the financial market speak for the application of other methods to resolve the crisis in the euro area and large scale ECB intervention on the secondary market. However, the ECB buying the debts on the secondary market cannot substitute closer economic policy coordination in the euro area. In the case of intervention on the secondary market the common monetary policy must be connected more closely with the austerity program and fiscal policies in the Member States.

[3] The MacDougall report, *Rapport du groupe de reflection sur le role des finance publique dans l'integration europeenne*, Bruxelles 1977.

Public spending coordination cannot be concentrated only on serving country debt market and political cycle, but must take into consideration the spillover effect on the partner countries. The harmony of monetary policy and fiscal policies is a prerequisite for the proper functioning of market economy and fast economic development. If these two key economic policies are not consistent with each other, it can result in a weakened economic growth or internal and external balance disorder. The smooth functioning of the EMU then requires a move towards a fully- fledged fiscal union among member countries. Institutional reforms in the euro area are needed to discourage free riding and to induce governments to internalize the negative externalities. In the future it is only under conditions of coordinated economic policies that it would be possible to run an effective mechanism to prevent external and internal disequilibrium in each Member States. To this goal the Maastricht criteria should govern without exception among the states and public finances should be considered jointly when the deficit in one country may be "equilibrated" by the surplus in a partner country. On the other hand, uncoordinated economic policies might depress capital formation, stimulate national debt levels and hamper Europe's international competitiveness[4].

However, the EU institutions do not ensure full coordination of the two most important politics, as can be seen clearly during the crisis. Without their reforms, the EU itself will not guarantee that similar crises will not occur in the future as a result of inadequate rapid response on the part of the euro area to signs of the crisis. It seems that the economic crisis in some member countries will not be overcome permanently without the help of the EU and new institutional structure of the euro area. The EU "misbehaved" because the area is an incomplete economic union, whose structural weaknesses are exposed especially in the time of external financial shock due to:

— lack of banking union,
— small resources accumulated in the EU budget,
— imbalance between single currency and multiple sovereign fiscal policies,
— lack of automatic stabilizers,
— absence of legal order and bankruptcy regime,
— low level of labor mobility.

Therefore the present crisis of the euro area rises a fundamental question as to the processes of European integration and the question arises if euro is necessary only for the proper functioning of the European single market or rather to be an element of the genuine economic and political union. Some authors asserted during the crisis that the benefits derived from "one money for one market" are rather modest. In practice the size of the cost of exchange rate instability suggests that it is a restrained obstacle to trade development and foreign investments. The euro still serves the development of trade in the EU and contributes to avoiding transactional costs. However, many experts even asserted that the *raison d'etre* of a monetary union was political rather than economic and the success of monetary integration rests

[4] *International Herald Tribune*, 22 July 20115, p.15.

on political union, and not on economic theories. Before the establishment of the euro area H. Tietmeyer, president of the Bundesbank, argued that after a certain point economic integration cannot realistically be expected to advance without the prospects of progress in the field of politics[5]. The transfer of an elementary sovereign right such as monetary policy to the ECB is likely to mark that point. O. Issing shared the view that if it is to be workable at all a monetary union requires full political union[6]. M. Wolf predicted in 1996 that under the EMU there would be incentives for individual governments to pursue deficit financing with the expectation that they would be bailed out by the ECB. The greatest risk is that those countries with initially high levels of public indebtedness might find the effort of lowering public debt excessively painful[7].

The crisis in the euro area revealed that monetary integration has crossed the Rubicon towards more harmonized economic policy. Monetary integration simply does not work without further fiscal integration policies among Member States. Countries of the euro area fell into debt crises relatively easily despite the Maastricht conversions criteria and Stability Pact. To overcome crisis, French President Francois Hollande has called for setting up common economic government for the euro area with its own budget, the right to borrow, a harmonized tax system. But in the euro area now there is a combination of decentralized national fiscal policy with centralized monetary policy. Budgetary policy in the euro area works primarily as an absorption function at the national level, and less at establishing an optimal budget entirely spent on the EMU. To escape from the current crisis and prevent the future one, there is no alternative but to elaborate a proper policy mix between monetary policy and fiscal policy at the European level. To make the convergence criteria more obligatory partner countries have agreed to introduce more strict debt and deficit rules to be included in the law of Member States, but there is no guarantee that debt crises will not happen again. The overarching objective of the EU must be to improve the management of the community with a view to conducting an internally consistent and fully coordinated economic policy in the euro area.

2. Reforms of the EU economic governance

Thus far however the EU initiative to improve economic governance seems to be moderate and perhaps too late in its steps towards effective coordination. Governments put emphasis on political controls of EU institutions over deficit and debt

[5] H. Tietmeyer, "Waehrunspolitische Kooperation zwischen Zentrabanken", *Deutsche Bundesbank Auszuge aus Presseartikeln*, 18 April 1995.

[6] O. Issing, *Political Union trough Common Money?*, Occassional Paper 98, Institute of Economic Affairs, London 1996.

[7] M. Wolf, H.E. Scharer, Ch. Johnson, *The Politics and Economics of a Single Currency*, London 1997.

development. However, you cannot effectively restrict fiscal and budgetary policies of Member States without some restrictions on their political sovereignty. The EU propositions take into account the arguments to avoid and correct budgets deficit and public debts in fiscal policies in Member States. Fear of the loss of sovereignty with regard to this state of affairs comes from mingling two crucial aspects of fiscal policy: structure and stabilization. Structural tax policy is mainly microeconomic and can be decided upon at the national level. However the income stabilization policy can be accomplished effectively at the supranational level. It seems that the fiscal policies of the euro area Member States should be coordinated top spot, in order to ensure an optimal level of expenditure in the EU as a whole.

Furthermore in the time of crisis the ECB must have possibilities to assume an active role to contain the debt crisis in the euro area by buying the bonds of highly indebted countries, and under the conditions to undertake the necessary reforms in highly indebted countries. It should be noted that the EU moved towards the EMU without giving it the ability to bail out public debts of partner countries and make transfers between them because of the prohibition of the Maastricht Treaty and limited size of its budget. Therefore it seems desirable as a one possible solution that a monetary union in euro area should be accompanied first of all by a tight coordination of the fiscal policies of its Member States. Maintaining the current status of lacking effective coordination and no institutional reforms in the euro area means risk of a similar crisis in the future. The need for institutional reforms and better coordination of economic policies in the euro area arises from growing economic integration and the likely spillover effects, when budgetary policies in one Member State have impact on the economies of other partner countries. In the economic crisis some countries — members of the single market — must assume the role of an engine of economic growth. The decrease in demand in one group of partners may be recompensed the public spending in other countries. More public spending in one or few countries may have positive impact in the form of the growth in import from partners carrying out the policy of stabilization of their public finances. The member countries with negative balance and high public debt (Greece, Portugal, Spain, and Ireland) should adjust as well as countries with external surplus and budgetary equilibrium (Germany).

The theory of fiscal federalism points out that fiscal responsibility can be divided between the EU and the Members States in the same way as they are divided between national states and their regions. There are two main economic arguments speaking for fiscal federalism: 1. spillover effects (negative externalities) if actions undertaken in one country lead to inefficient outcomes in the partner country; 2. increasing returns to scale when, for example, an anti-cyclical policy is more efficient when carried out on a large scale[8]. Thus far we do not know precisely what the economic benefits and costs of institutional reforms and closer economic union

[8] R. Baldwin, Ch. Wyplosz, *The Economics of European Integration*, London 2006, pp. 410– 411.

are. Reforms commit partners to agree on the actions needed in order to accomplish a coherent policy for the euro area. The basis for the reforms and better coordination of economic policies coming from the fact that in the euro area under the Maastricht Treaty (given the openness of European economies) no member country alone has an incentive to expand demand issuing fiscal policy. Because a large part of the benefits of increased growth and employment would accrue to its neighbors and most cost of a deterioration of balance of payment would fall on the country itself, a country withstands to assume a role of a locomotive of economic growth. So if every country decides on its economic policy independently, taking into account only its own interest, the euro area's economic policy would be on average deflationary.

In the euro area, like in every country, macroeconomic stability is provided by national budgetary policies that perform a function of shock absorbers. Due to past activities most EU members faced the problems of excessive public debts and had to increase taxes to speed up fiscal consolidation. Tax consolidation is an important means to recover budgetary and external trade equilibrium among EMU partners. However, in the time of crisis there are valid arguments for jointly imposing discipline and budgetary stabilization coordination among partners. In the fully liberalized European capital market, the excessive growth of taxes in one country has negative externalities due to costs of capital outflow. Loss of a tax base in one country, which reduces the supply of that country's public goods, may be correlated to an increase of the tax base in partner countries. Simulation conducted by the Institute for Prospective Technological Studies shows that the loss of efficiency due to tax increase would be reduced if the tax rises in the EU countries were to be coordinated in order to "internalize trade-related spillover effects". So fiscal consolidation in the EU should be arranged in a coordinated manner as well as there should be increases of taxes and the types of taxes included (better indirect taxes than direct taxes). The result of the analysis indicated that efficiency gains would be potentially higher for VAT than labor taxes[9].

Today fiscal discipline and more belt-tightening in Greece, Spain, Portugal, Italy and other partner countries increases the likelihood that the EU as a result of the euro crisis would face slow economic growth. It seems that a coordinated expansion by all member countries of the euro area would therefore have a much bigger positive impact on growth and employment. The EU authorities should have much more power when it comes to conducting the growth policy. It is even suggested to set up a joint government for countries in the euro zone, which would take economic decisions on behalf of all member countries. Such a government could efficiently perform their functions on the conditions of having at its disposal the appropriate budget to undertake public investments. The reform of the EU budget seems to be

[9] Tax reforms in EU Member States 2011. European Economy 5. 2011, European Commission, Luxembourg 2011, pp. 68– 69.

desired and can rely on strengthening its own revenue by introducing a tax on the European dimension. This tax may be related to environmental protection, so that countries which produce most of negative external effects would make the largest financial contribution. Joint taxation may also include intra-Community trading so countries having the largest share in the internal exchange pay largest taxes. However, changes in taxes require a unanimous vote of the Member States. The Member States are still very reluctant when it comes to giving their fiscal policy the transnational control.

There is no doubt that confronting the crisis would be much more effective if it was not carried out by the Member States individually, but together at the EU level. Therefore it seems that the fiscal policies of the Member States should be coordinated top spot, in order to ensure an optimal level of expenditure in the EU as a whole. Thus the expected reduction of the budget deficit in some countries could be mildly left-aligned due to budgetary expenditure in the partner countries. What is more, budget reform should also cover expenditure structure towards acceptance of the role of automatic stabilizers. The idea is that the Member States are given access to the auto crisis passing through financial assistance from the common budget without much delay and complicated approval of national parliaments. The EU should intervene already at the stage of economic overheating and speculative boom, as well as engage more in assistance to the countries affected by recessions. To prevent future crises, the euro area needs to develop new instruments to combat its effects. For this purpose, the euro area countries should oversee and tax speculative economic overheating, as well as have a special stabilization fund that would accumulate capital big enough to be able to provide effective anti-crisis assistance. This assistance should be more flexible and be granted automatically, and not be subjected to a long process of authorization on the part of the parliaments of all the member countries

The reform of the EU economic governance under the influence of crisis should not be confined only to the fiscal policy in member states, but must also consider the rules of the common monetary policy and the place of ECB in shaping this policy. The first task of the ECB is to ensure adequate liquidity of banks operating in the euro area. Before crisis excessive bank credit action stemmed from the low level of interest rates of the ECB and the liberalization of financial sector; thus it was at the banks in the euro area discretion to expand their operation with little regulatory oversight. As crisis arose in the real estate's market the banks lost mortgages, so they stopped lending money and because the credit stopped flowing in, the companies began lying off workers. Therefore, the reform in the euro area also included the banking system of all Member States. The capitalization of the domestic banks is being completed and provided more control on the activities of the sector as a whole. The banks must reach full capacity to support the recovery through new lending, including to SME which play a key role in job creation. Banks in the euro area countries must be subject to greater surveillance at Community level, as far as the credit policy is concerned. The ECB loans to banks in the euro area should not be either restrictive nor too readily available. The ECB interest rates should take into account the economic situation in the less developed member states and peripheral regions and not only the condition prevailing in well developed member countries. The reform must be subject to the banking system towards greater consolidation, increased surveillance and greater credit support for the development of national economies.

In order to finance external and internal deficit, the European System of Central Bank (ESCB) has the central position in the Member States of the euro area. The ESCB uses the short-term interest rates to conduct monetary policy. Like other central banks, the ECB has monopoly on the supply of cash and controls short-term rates. It should be noted that in the euro area system, the common currency in circulation is just 9 per cent of broad money (M3). The ESCB finance flows via credits by the euro real-time settlement system countries with external trade deficit receive financing abroad from the ECB and central banks of partners countries. There are debtor central banks in Ireland, Greece, Portugal and Spain, and creditor's central banks in such countries as Germany, Luxemburg, Netherlands, Finland, and Austria. The central banks of the debtor countries act also as lenders of last resort to country's commercial banks and lend against discounted public debt. Because of the internal payments disequilibrium huge assets and liability have been transferred among the national central banks with the Bundesbank as the dominant creditor. Nevertheless, when the European Central Bank financed commercial and investment banks in the form of "quantitative easing" with loans at a low interest rate, it could act also in favour to finance potentially solvent partners and keep calm on the financial markets.

In September 2012 ECB has decided about purchasing bonds in potentially "unlimited quantities" with a maturity of up to three years, if a euro government first formally requests aid from the bailout fund. The program named: "Outright Monetary Transaction" was directed to highly indebted countries under the conditions that they abide to reform their economy and public debt. The ECB buying short terms bonds on the secondary market in potentially unlimited quantities was an essential change in the euro area policy that brought their interest down and might have led partly to mutualisation of public debt. To avoid potential default of one or some partners the ECB had the right to undertake unlimited buying of at least short-term bonds to create a substantial and credible firewall. "The European Central Bank financed also commercial and investment banks in the form of 'quantitative easing' with loans at 0% interest rate, it could act also in favour to finance potentially solvent partners and keep calm on the financial markets. For the first time in its history in June 2014 the ECB lowered the interest rate even to below 0 to 0.1% and in September of the same year to 0.2%. The main reason for this reduction was the incentive for commercial banks to expand lending, in order to increase investment and production companies and revive consumption. The ECB implements quantitative easing mainly by purchasing financial assets from banks with newly created money that increases their excess reserves. These reserves can be used to credit real economy, as well as to buy bonds. Some European authorities had hoped that the banks would use the funds to purchase high-yielding governed bonds, but they were not very willing to invest liquidity in bonds and came back partly to ECB account[10].

Taking into consideration the prolonged crisis in the euro area it seems that the task of the ECB should be enlarged beyond only keeping the inflation down. Recurrence of inflation is not currently threateaning the member countries nor is it a priority of their monetary policy. The ECB should also be responsible for financial stability and growth: if financial stability is paralyzed in highly indebted countries then the growth will not come not only in this country but due to spillover effects also in partner countries. Temporary money creation would not be inflationary in a depressed economy and it would help to avoid high employment and reduce public debt in some euro area countries. This far the ECB policy of quantitative easing works effectively and did not bring inflation but it helped to increase the economic growth. Some economists even claim that this policy of quantitative easing has saved the euro. If such injection of extra liquidity into the system would dry up, then economic activity must shrink with accompanying growth in unemployment and drop in wages and prices causing "internal devaluation". If the ECB had refused to lend against the debt of one defaulting member country, its central bank and next the commercial banks might have collapsed. This situation threatened Greece in the process of negotiating a new tranche by mid-2015. Without further liquidity credit from ECB, the Greek Central Bank would be forced to freeze bank accounts and most probably redenominate debt in a new currency. In the case of insolvencies of Greek Central Bank this would impose large losses upon creditor central bank and in reality may cause a fiscal transfer.

The essential credit policy of the ECB should not only prevent economic downturn, but also assist the Member States in overcoming the crisis. The relevant interest rates should take into account not only inflation, but most of all, the level of economic activity. In the time of crisis the ECB may assume an active role to contain the debt crisis in the euro area by buying the bonds of highly indebted countries, and under the conditions that the necessary reforms in highly indebted countries will be undertaken. The ECB interventions should not only addres the secondary market, but also consider its "unlimited" purchases in a situation of an exceptionally severe crisis. The ECB, as the Federal Reserve System in the USA, should act more "as a lender of last resort" in the euro area "in exceptional cases". To this end, it should have independent competences of indebtedness and the limitations in the level of indebtedness should be more European than the debt level of indebtedness of individual member countries. Of course, giving such powers to the ECB requires changes to the Maastricht Treaty. Futhermore, the ECB may also not only rely on the

[10] *Finacial Times*, January 2012, p. 25.

strategy of "quantitative easing" but it must also allow "qualitative easing" to change the assets kept by central banks. Loosening of the ECB policy may also be connected with a temporary weakening of the euro on the financial markets. The decline in the exchange rate of the euro on the foreign exchange market may not bring negative effects as far as competitiveness improves the economies of the member countries on the markets of goods and services. An economic rule of thumb explained that a 10% fall in the euro may boost export and economic growth of about 1% after six months, especially in export countries that are most sensitive to the euro exchange rate. Furthermore a loosening of ECB policy is also connected with the weakening of the euro as it dropped to low level of about 1.1 doll per euro at the end of 2015[11].

Overall, the crisis of such magnitude as the euro area crisis calls for taking deep reforms at the level of member countries as well as the European institutions. The processes of overcoming the crisis in the euro area require action in two basic sections. The first is to carry out a far-reaching economic transformation in the countries affected by the heaviest economic crisis. In the case of crisis in the euro area member countries have at their disposal two safety valves: elastic labor marker or economic policy. The two instruments operate at the national level and their effects depend on the reforms undertaken by individual countries. Nevertheless, in order for reforms undertaken by individual countries of the euro zone to be effective they must be undertaken in a coordinated manner. Austerity policy pursued by all countries leads to deflation and weakening economic activity. Due to the fact that EU countries are closely related economically, the idea is to avoid the negative externalities and provide an optimal level of expenditure on a scale for all euro zone. To make the convergence criteria more obligatory partner countries have agreed to introduce more strict debt and deficit rules to be included in the law of member states, but there is no guarantee that debt crises will not happen again. To escape from the current crisis and prevent the future one, there is no alternative but to elaborate a proper policy mix between monetary policy and fiscal policy at the European level. The overarching objective of the EU is to improve the management of the community with a view to conducting an internally consistent and fully coordinated economic policy throughout the euro area. However, there are no anti-crisis instruments in the euro area as a whole, which do not operate as automatic stabilizers due to the limited size of the EU budget. The burden of fighting against the crisis falls on the economic policies in the Member States, that due to high debt and the budget deficit have limited room for manoeuvre.

Confronting the crisis in the euro zone continues through many sections and measures that have both standard and innovative character. In some ways the crisis in the euro area had many features in common with similar financial crises in the past. It was preceded by a relatively long period of rapid credit growth and soaring asset prices.

[11] J.P. Guichard, *La crise, l'Europe et la Mediterannee. Rencontres des Chaires Jean Monnet*, Brussels 30–31 May 2011, pp. 5–7.

Such bubble developed earlier in Japan or during the Asian crisis, but the difference in comparision with earlier episodes was that the euro area crisis was not local, but the part of the global crisis. It is said that the present crisis had also many things in common with the Great Depression. However, the EU member countries governments and the ECB were aware of the policy mistakes made during the crisis in the 1930s. Due to the deposit insurance scheme the banks in the euro area avoided large scale runs. Efforts were made to recapitalize banks to safeguard their solvency. Monetary policy of the ECB was successfully eased to ensure liquidity. The main reason for this reduction of interest rates was the incentive for commercial banks to expand lending in order to increase investment and production companies and revive consumption. The scale of the monetary intervention prompted an immediate and coordinated EU strategy to prevent an outright collapse of the financial system. There were worries about the negative spillover effects of these measures, because of the danger of large flows of funds between countries in search for the higher level of protection. However, in no country of the euro area inflationary pressures exist so far. Overcoming of the crisis in the euro area was connected with clear commitments of Member States to restructure and consolidate the banking sector.

3. Coordination of anti-crisis policy in the EU

The current refugee crisis revealed clearly the lack of a proper coordination mechanism at EU level. The EU cannot cope with the problem of the refugee quota allocation between different Member States and the same lack of coordination mechanism is visible on the occasion of the crisis in the euro zone. The key to overcoming economic crisis is also to elaborate and introduce an optimal anti-crisis policy between members adapted to the situation of economic downturn. The French government and the Italian government have even proposed the establishment of a joint budget for the eurozone, fuelled by special taxes, controlled by the European Parliament. What is more, economic policy in the view of French and Italian government should be led by an independent finance minister[12].

Since economic crises often appear under the influence of errors in economic policy, the first step in anti-crisis method is to correct past mistakes. In a situation of as deep a crisis as in 2008 governments had to take the entire package of activities comprising various instruments**.** First and foremost, in the countries affected by the crisis, the appropriate balance had to be found between their policy of revenue and expenditure. This balance had to take into account the impact on the level of investment, consumption, unemployment, economic growth. To be effective anti-crisis policies must be coherent internally, have adequate measures to be carried out at the right time, with the appropriate consequences. However, in the EU carried out

[12] *Rzeczpospolita*, 30 July 2015, No. 176.

28 separate economic policies, which are often contradictory, and therefore do not comply with the conditions of an optimal economic policy.

Therefore an important sphere of anti-crisis actions in the EU/euro area is the process of coordination of economic policies in Member States. It is said that if the economic policy of one member country affects the variables making up the other country's welfare function, better results are possible with coordination than without it. If one of the member countries of the euro zone does into serious economic downturn, then all the EU economic grouping does too. Appropriate financial and fiscal policy can quickly transmit pulses of economic growth between the partners, and if the second is quite a successful business, the growth of the other partner may alleviate the effects of the fall in production and investment of the first. The persistent crisis in the euro area must then rely on the EU institutional reforms, which will ensure the effective economic policy coordination between partner countries. Coordination of economic policy between partners under the framework of common institutions increases their efficiency and allows to avoid the negative effects of so called free riders policy.

Coordination is the process of determining and organizing different activities or items to ensure their mutual adaptation and interoperation. There are different forms of policy cooperation between partner's states:

— information which the partners exchange. Partners agree to inform one another about the instruments and aims of the policies they intend to pursue. Due to receiving new information partners may change their policy to achieve their economic goals, however they reserve full freedom to act as they see fit.

— consultation — partners undertake to seek the opinion and advice of others about the policies they intend to execute. In practice the competences of partner countries are affected, although formally the sovereignty of their governments in carrying out independent policy remains intact.

— coordination commits partners to agreement on the set of actions or policies. It may involve the harmonization of national laws and administration rules and convergence of the target variables. If common goals are fixed some authors speak about cooperation. Coordination limits the scope and the type of policy actions that national states may undertake. However, it leaves leeway to the states in the selection of measures in the implementation of common objectives.

— the most advanced form of international cooperation is unification. Unification means either the abolition of national instruments or the adoption of identical instruments for partner countries. In this way, unification means the implementation of common objectives with the help of the same measures[13].

The concept of coordination is today being abused and not all forms of international cooperation can be called coordination. It is not only about taking joint actions, but also about the effects of joint actions, whether they are positive or neg-

[13] W. Molle, *The Economics of the European Integration. Theory, Practice, Policy*, Aldershot 1992, pp. 14–15.

ative. For international coordination economic policies are considered to be general measures taken in order to establish common guidelines. Moreover there are also fixed common economic policy goals, and there is large economic dependency between countries. Coordination is seen as beneficial if a common interest of a group of countries would otherwise not be appropriately served. Coordination is useful if behavior of individual actors has significant spillover effects on the other actors. It is particularly advantageous between economies strongly integrated with trade and capital investments. If behavior of individual country has significant spill over effects on the trade and capital migration in partner countries, then there are important benefits from coordination to be reaped.

Besides, the theory of economic policy makes distinction between: vertical coordination between partners in their various strands of economic policy (fiscal, structural, monetary, regional) and their timing; horizontal coordination between partner states to deal with cross-border economic spillover effects. The anti-crisis policies to combat global recession involve multiple actors, from vertical as well as horizontal coordination. Vertical coordination serves to select the appropriate set of policy instruments as well as to manage policy interactions and trade-offs. Anti-crisis policy typically combines vertical and horizontal coordination. Multiple cross-border spillover effects of policies among the countries integrated by intensive trade and productive factors flow call for coordinated economic policy in such fields as monetary, fiscal, growth policy, structural actions.

In view of the complexities and difficulties of horizontal coordination between countries the establishment of the joint authority for initiating joint international activities and eliminate mutual conflicts is recommended. The economic crisis has clearly confirmed that more attention in the EU has to be paid to the so-called "common governance", because economic coordination there has not been strong enough to prevent macroeconomic and fiscal imbalances within the euro area. The current crisis has demonstrated the importance of a coordinated policy framework for crisis management in: 1. Crisis prevention to prevent reoccurrence in the future. It should be mapped into a common partners judgement what the principal causes of the crisis were and how changes in regulatory and supervisory policy framework could help prevent their reocurrence. Regulatory reform geared to crisis prevention in invidual member states, but if not coordinated they will affect the direction of trade and capital flows; 2. Crisis control and mitigation. The euro crisis showed that financial assistance by home countries and unilateral extensions of deposit guarantees entailed disrupting spillover effects. Austerity programs in some countries may have an adverse effect on the others. Fiscal stimulus also had cross boarder spillover effects through trade and financial markets. Hence horizontal coordination across the EU seems to be necessary to find out the right balance between national actions and spillover effects in order to stabilize the financial system and the real economy; 3. Crisis resolution. The euro crisis showed that coordinated approach is necessary to ensure end of a downturn across Member States at the lowest costs. Saving programs of countries experiencing fall in production should be coordinated with the public expenditure of countries which are in a better economic situation. This requires a common policy action to ensure that economies of member countries return to sustainable growth and fiscal paths. National policies for a return to fiscal sustainability should be coordinated with monetary policy. State aids for financial institutions should not persist for longer than necessary. This includeds, inter alia, vertical coordination between partners to restore banks balance sheets, restructuring of the sectors and orderly exit from crisis strategy. International aid should be granted conditionally, depending on the progress of the reform of the economy.

Specifically at each stage of coordination — support for the crisis hit economy involves actions by the regulatory, monetary and fiscal authorities: 1. At the crisis control and mitigation stage monetary policies provide liquidity injections to the financial sector and cuts in interest rates. Regulatory actions include, among others, bailing out or nationalizing troubled financial institutions, guaranties on private deposits, bans on short term sellings. The monetary authorities used to purchase securities in order to increase liquidity for the banking sector; 2. Crisis resolution measures include capital injections and separating toxic assets, fiscal authorities taking shares in private companies, monetary authorities lending directly to financial institutions and the private sector. Restructuration processes embrace consolidation actions: merger, acquisitions, and occasional bankruptcies in the financial sector. Management of toxic assets by "bad banks" are to be a part of the wide restructuration efforts; 3. Policies to prevent reoccurrence of crisis carried out in order to ensure sustainability in public finances. On the one hand that embrace such actions as tax increases to optimal level, on the other hand, they involved budget expenditure restraints.

After the crisis broke up in the euro area the immediate priority was to restore viability of the banking sector. Due to huge capital loses of the banking sector there emerged needs for its recapitalization on a great scale. The road to viability of the banking sector led through restoring viability of individual financial institutions. The banks afflicted with the loses needed to restructure with support so as to restore their long term viability. Since October 2008 the European Commission has approved a total of over 3.5 trillion (almost one third of the GDP) state aids measures to financial institutions. Financial rescue policies focused on restoring liquidity and capital of banks. In addition, state guarantees on bank liabilities represented the largest budgetary commitment among the instruments (2.9 trillion euro). Temporary fiscal stimulus had some impact on spending or production, because households and businesses increased their consumption and production spending. It is estimated that fiscal stimulus could contribute about 3/4 of a percentage point to real GDP growth in 2009 and about 1/3 of a percentage point in 2010[14]. These impulses beginning the fiscal years 2009–2010 continued also in the following years.

[14] "Economic Crisis in Europe: Causes, Consequences and Responses", *European Economy* 7/2009, Luxembourg, p. 67.

Coordination between euro area partners to be effective also had to include such sensitive activities as credit policy. The effectiveness of the extensive monetary policy action was judged not only in terms of traditional transmission channels, but also in terms of avoiding financial meltdown and banking preparing for a normal functioning on the credit market. The ECB satisfied all liquidity bids in its main weekly operations. In the time of crisis it many times pulled the overnight rates effectively to zero. The extensive monetary policy easing in the EU had certainly reduced the stress in the financial market. As a result, the deposits were raised, interest rates dropped to unprecedented low, levels, financial institutions had access to virtually unlimited lender of last resort facilities. The banks in many EU Members States strengthened their position as capital injections had been considerably higher than write-down. Moreover, ensuring sufficient lending to non-financial institutions became a further challenge as banks started the process of leveraging.

The core off anti-crisis intervention in the euro area was then to repair the financial system in Member States. The idea was for the support for banks to take place in accordance with the principles of the EU and not to infringe the competition rules of the European single market. It is worth underlining that the countries inside as well as outside also did not resort to protectionism to carry up the beggar-thy-neighbour policy. Of course, due to the huge financial support to the banking sector some competition distortions have been created. Differences between member countries in terms of resources available for state intervention harmed the level playing field in the European single market. So there was a necessity to coordinate the states support with a strategy to limit the overall amount and to avoid great differences between the countries.

Table 1. Permanent and temporary GDP effects of fiscal shocks of 1% of GDP

Fiscal measures	Permanent stimulus	Temporary stimulus	Temporary with monetary
	Accommodation		
Investment subsidy	0.46	1.37	2.19
Government investment	0.84	1.07	1.40
Government consumption	0.36	0.99	1.40
Consumption tax	0.37	0.67	0.99
Government transfers	0.22	0.55	0.78
Labor tax	0.48	0.53	0.68
Corporate profit tax	0.32	0.03	0.05

Source: *Economic Crisis in Europe*:…, p. 70.

Simultaneously the macroeconomic stimulus in the period of crisis both monetary and fiscal has been employed extensively in the euro area. Governments of all EU countries released fiscal stimulus to hold up demand and production. Table 1 presents the fiscal multipliers for different fiscal measures for the member countries in the period of one year. These multipliers were calculated with the help of the Commission's QU-EST model. The result of the calculation shows that investment subsidies and government investments are the most effective means of intervention and display the largest multipliers. Investments subsidy has a 0.46 permanent stimulus coefficient and a 1.37 temporary stimulus coefficient, but government investment has higher permanent coefficient a — 0.84 and a lower temporary stimulus — 1.07. Increasing investment subsidies yield sizeable temporary effect because they lead to reallocation of investment spending into the purchase of new equipment. Most of the income growth effect as a permanent stimulus is provided by government investment. Government investments and consumption yield larger multipliers than labour tax, because it went along with negative labor supply incentives. According to the European Commission calculation, a change in consumption tax creates a moderate short term and long term multiplier in Member States. Temporary corporate tax reduction would not yield positive short term GDP effects. Overall the impact of fiscal packages on GDP depends on the composition and the credibility. If monetary policy is more accommodative towards fiscal stimulus, the GDP effects are considerably larger, especially in the case of investment subsidy, government investment, government consumption and consumption tax[15].

Fiscal stimulus typically has the strongest impact on spending or production given that households and businesses are induced to advance their spending or production plans as they would otherwise miss out on the opportunity. Consumers with the smallest incomes after receiving an extra income show a high propensity to consume. Manufacturers experiencing troubles with liquidity after receiving tax reduction or subsidies increase purchases. In order to be effective, a fiscal stimulus package must be temporary and fully reversed at the appropriate time when the economy recovers. It would be appropriate for Member States with a large fiscal space to bear a larger share of fiscal stimulus. There is always the danger that fiscal policy would undermine the sustainability of public finances. Because fiscal stimulus may be connected with higher interest rates, crowding out effects and reduction of private sector activity, it is best that fiscal activism be concentrated among the states who dispose of the largest fiscal space. To be fully effective, fiscal policy must be coordinated between countries. Smaller expenditure of some countries can be recompensed by higher spending and deficit in partner countries. Moreover, if fiscal measures are credibly temporary, the monetary policy may accommodate the fiscal stimulus by adopting an easier policy stance. It is especially important when countries are trying to overcome the crisis by increasing public sector spending (public investment, investment subsidies, and public consumption).

The reform of fiscal policy is usually part of wider economic reforms within the framework of the structural policy that covers a wider range of activities such as, inter alia, public sector reform, transformation of ownership, reform of the labor market, the banking sector. The policy of structural reform is listed among the most

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[15] *Economic Crisis in Europe…*, p. 70.

powerful crisis prevention policies in the euro area in the long run. Although the policy of structural reforms is difficult to agree on internationally as it is mainly a domestic dimension, the main tenets of this policy should also be coordinated at the EU level. The privatization of the public sector in some euro area countries should not be accompanied by nationalization in the partner countries. Coordinated support for business sectors during the crisis was provided both on the demand and supply side. Most of the EU member countries allowed policy support to be given to the most affected sectors like cars, tourism, construction. The reform of the banking system in the direction of its larger surveillance, recapitalization and consolidation should be coordinated to pull out all the euro area countries from financial troubles. The economic crises affected companies through a severe contraction of credits from the banking sector, especially SME, hence the banks and European programmes should commonly credit this type of enterprises that create the most jobs now. The anti-crisis strategy included also partly the EU regional policy and common competition policy. Exit from temporary measures supporting particular sectors should be coordinated at the European level.

The next important element in overcoming the crisis are more flexible labor markets. In this regard, the EU and its members have undertaken a series of measures in order to alleviate rising unemployment and its negative effects. Among them we can highlight: flexible working time arrangements, shorter working hours, guiding people towards new jobs, unemployment benefits, lowering wages costs, income support for the most affected. On the one hand, the labor market reforms included the retirement age, increasing flexibility of employment and part-time contracts, dismissal of employees to improve the competitiveness of companies, on the other hand, the reduction of working time and retraining of workers increased their costs. In order not to worsen the competitive situation of some partners at the expense of others, all important activities in the labor markets should be coordinated between EU members. The idea is that countries intiatives such as shortening of working time, extending the retirement age should be coordinated at the Community level. This coordination would prevent distortion of the conditions of competition between the partner countries. In the EU these measures to increase employment were, however, too modest to bring about fast results. In addition an appropriate level of coordination at the EU level was not provided.

In the long run to improve the situation on the EU labor market preference should be given to education and training activities. Qualified employees shall comply with the requirements of the market, where there are still shortages professionals, engineers, doctors or nurses. Therefore, the anticipation of future skills needs to be promoted for such activities as "green jobs". Free movement of the most qualified workers within the single market should be strengthened. The same concerns the transition to a low-carbon economy, reduction of public administrative burden. More coordinated efforts should be devoted to implementation of the single market program in the area of services and to promote R and D and innovation. Wage development should also take into account each euro area partner's competitive position towards third countries. On the other hand, the experiences of crisis in the euro area showed that the following set of measures should be avoided during the economic downturn: discriminate tax funded support in declining industries; direct jobs creation scheme; early retirement due to its adverse effects on economic efficiency and sustainability of public finances.

Overcoming the crisis depends of course on the course of business decision making to increase production and improve investment climate. Companies must gain conviction as to the sustainability of the recovery in the euro area and to make long-term investments. Aware of the decisive decision to encourage enterprises the European Commission Communication: "Driving European Recovery" (European Commission, Brussels March 2009) set out a number of guiding principles to policy of supporting businesses during the economic downturn in the euro area:

— maintaining openness within the European single market and continuing to remove the existing barriers. Respecting international commitments and ensuring non-discrimination principles in treating the goods and services originating from third countries;

— targeting intervention towards long term policy facilitating structural change and enhancing competitiveness in the long run.

— sharing information about applied methods and best anti-crisis practice.

According to the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), the contracting parties undertake to work jointly towards the economic policy that fosters proper functioning of the economic and monetary union and economic growth through enhanced convergence and competitiveness. To that end the contracting parties shall ensure that all major economic policy reforms that they plan to undertake will be discussed ex-ante and, where appropriate, coordinated among themselves. The Heads of State or Governments of the of the euro area group shall meet informally in Euro Summit meetings that take place when necessary, and at least twice a year, to discuss among others questions relating to the specific responsibilities and other issues concerning the governance of the euro area and strategic orientations for the conduct of economic policies to increase convergence. The President of the Euro Summit shall be appointed by the Heads of State or Governments of the Contracting Parties to present a report to the European Parliament after each Euro Summit meeting[16].

In order to overcome the present crisis Van Rompuy's report in June 2012 mentioned four essential building blocks of a genuine economic and monetary union that will have to be put in place over the next period. In view of the report they offer a coherent architecture for long-term stability and prosperity of the EMU and include:
1. An integrated financial mechanism with a view to ensure financial stability, com-

[16] Art. 9–13, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, Brussels, 1st February 2012.

mon supervision of banking at the European level, resolve banks failures and guarantee customer deposit; 2. An integrated budgetary framework to ensure sound fiscal policy making in the euro area. Such framework encompassing coordination, joint decision-making, different forms of fiscal solidarity, commensurate steps towards common debt issuance; 3 An integrated economic policy coordination at the national and European levels to promote sustainable economic growth; 4. Democratic legitimacy and accountability of decision-making within the EMU[17].

Generally, both the Fiscal Pact (TSCG) and Van Rompuy's proposals seem to be too general plans to achieve effective coordination at the EU level. First of all, the EU countries should coordinate their policies concerning public expenditure, where there is the greatest potential for overcoming the crisis, and avoid individual action distorting the rules of free competition in the private sector. The governments of Member States should coordinate their public investment expenditure or support specific sectors. It concerns especially the sectors showing the greatest growth dynamics with fast technical progress, more effective coordination between member countries intervention actions, particularly when support was directed at sectors where intra-EU trade is important. The framework for the EU coordination should be extended to many industrial and services sectors as well as to public institutions policy and strengthened under the three building blocks mentioned earlier:

Crisis prevention. These actions have a goal to prevent a reoccurrence of a similar downturn in the future. It is about carrying out a credible diagnosis of what causes crises in modern economy and why the crisis which originated in the USA moved to Europe with such ease. Crisis prevention requires first of all elaborating comprehensive and reliable report on the causes of the present crisis in Member States and the EU as a whole. This applies to both the crisis associated with refugees, as well as the economic crisis. At the crisis prevention stage the rationale for the euro area coordination seems straightforward in the view of the high degree of financial and trade integration. Without proper coordination the Member States would not take into account intra-EU spillover effects in the future. First of all, to attain this goal the member countries should establish the joint body (Committee) Advisory Board consisting of experts, who can keep examination of economic situation in the member states. This authority should formulate recommendations for the economic policies of the Member States and put pressure on the changes in macroeconomic regulations. What is more, the EU authorities should have supervisory powers over the economic policies of different members fin order to prevent the negative consequences of bad policy, such as excessive indebtedness, leading to crises. Especially the euro area supervisory policy framework would help to prevent the occurrence of a similar crisis in the future.

[17] *Towards a Genuine Economic and Monetary Union*, report by President of the European Council Herman Van Rompuy, EUCO 120/12, pp. 3–7.

Crisis control and mitigation. If the countries of the euro area are experiencing a crisis, it is usually a result of mistakes made in the economic policy so the countries should take coordinated actions in order to overcome it. These actions ought to mitigate the damage caused by financial system defaults and output loses. The essential first element of the intervention is to ease liquidity shortages and the social hardship stemming from recession. Crisis control and mitigation includes substantial aids to stabilize the financial systems by giving banks more liquidity at their olisposal. Cleaning the balance sheets of banks always has a negative impact on public finances in the short run. If, however, businesses remained credit constrained, banks would have a negative impact on the production sectors because their behavior would be less focused on products expansion. In the first period of crisis the monetary policy of ECB plays in it a crucial role with monetary easing stronger than in normal circumstances. Monetary measures such as the provision of liquidity are necessary because the policy transition is weakened by the sore state of banks balance sheets. Later on crisis mitigation should also include actions to increase public investments and subsidies to the real economy, which have the highest level of temporary and permanent multiplier. The public funds of euro members should be invested in different sectors of production and services, taking into account the weight of these sectors in individual countries' economies.

Crisis resolution. This goal was to bring crisis to a lasting close at the lowest possible costs. When it comes to the refugee crisis, the EU must develop a system to stem their influx and ensure their equitable allocation, between the individual Member States. When it comes to the economic crisis, the actions should prevent competitive distortions in the European single market. Surplus countries should implement measures conducive to stronger demand, while deficit countries should be urged to implement fiscal discipline. The adjustment of current account imbalances in the euro area should be facilitated by structural reforms in Member States. Crisis resolution requires reversing temporary support in the right time with a view to return to the path of sustainable growth. In the euro area countries investment has to be stepped up, which required risk capital. So the more effective the cleaning up and strengthening of the financial sector, the stronger economic recovery would be. To attain the goal of crisis resolution there is a special place for common public investment of the EU Member States in the field of European infrastructure or protection of environment financed by the credits from the European Investments Bank. Such joint action to mitigate the effects of the crisis seems especially indispensable in the euro area. Timely fiscal stimulus, especially in the biggest Member States is also necessary to support weak demand. If fiscal stimulus comes too late or does not come temporarily, it is less likely to induce private spending. An orderly exit from public intervention strategy in the Member States is an essential part of crisis resolution. As recovery takes hold, emphasis needs to shift from fiscal to structural policies.

After 2014 the situation on the European financial markets has continued to improve. The continued improvement of the market sentiment is related to the cleaning-up of the Spanish, Irish, Portuguese banking sector and the ongoing transformation processes. You can say that, with the exception of Greece, all countries have gone through the deepest downturn in crisis. Economic growth in the euro area countries is still very weak, and the economy is further burdened with a huge debt, therefore such events in the world economy as weakening of the dynamics of the Chinese economy growth may again bring back the recession. Therefore in the long run the euro area needs essential structural reforms, but the present crisis shows that it cannot be overcome only through transformation in the Member States. Overall, the economic crisis has demonstrated the importance of coordinated policies for crisis management in the whole of the euro area. Each country state intervention had cross-border spillover effects, through trade and financial markets. Spillover effects were even stronger in the euro area than in the other regions because of the absence of exchange rate offsets. Therefore improved cross-border management seems to be a key lesson learnt from the crisis. States should intervene jointly in particular in the form of public investment and investment subsidies, taking into account the size of the multiplier. Structural policies in member countries should be directed at increasing investments, employment and development of new technologies. This requires new initiatives to stabilize economy, to increase confidence of the business to undertake new investments, to develop competitiveness, new skills of labor force, greater labor mobility (geographical or across industries), to increase innovation and spending on R+D.

Summary

The overall experience of the latest crisis shows that the fight against crisis in the EU must be accomplish by effective coordination between Members States. This applies both to the refugee crisis, as well as the economic crisis in the euro zone. However, thus far the EU proposals seem to have been too general to achieve effective coordination between member countries. When it comes to the economic crisis, in the first phase financial policy should deliver the appropriate regulation and supervision of the financial market. The proposed banking union in the euro area should minimize the cost of potential bank failures and financial intervention to citizens of Member States, so it must include at least three elements: supervision, resolution and a common fiscal backstop. A true banking union in the euro area would probably be unworkable unless accompanied with the coordinated economic policy and fiscal union between partners. The two most important economic policies: monetary and fiscal policies must be coordinated in order to avoid financial crisis in the future and better respond to a broad set of indicators of macro financial stability. Structural policy acts also to avoid financial crisis through achieving sufficient market flexibility to ensure that macroeconomic fundamentals remain strong. It may involve actions on the labor market (increasing its flexibility), intervention in the product market

(in the case of valuable industries), balance of payment support. Fiscal coordination does not necessarily mean total unification of all national budgets into one supranational budget. Coordinated fiscal policy might include some fiscal standards, and also common rules concerning spending in the case of an economic downturn. This coordination can help to avoid contradictory means and negative externalities, and to provide proper income stabilization policy for the whole of the euro area. All these types of action can help to avoid future crisis in the euro area, but even the best crisis prevention framework may fail. Crisis resolution in euro area is a coordinated roadmap for member countries to come out of the present crisis. Crisis resolution does not involve announcing a fixed calendar for all countries, but rather defines direction of the next moves and the conditions that must be satisfied. It seems that this euro area crisis has been permanently resolved and in order for it not to reoccur in the future changes need to be made in the EU institutional framework which will guarantee better coordination of partners economic policy. All proposed reforms and steps against crisis in the euro area are mutually collateral: monetary integration requires sticter fiscal integration, ECB bailout policy is subject to austerity programs, fiscal integration requires banking union. All in all, the EU must put in place some form of economic government that will be able to effectively coordinate fiscal policies with the monetary policy of the ECB. In the future it is only under conditions of proper policy mix between the ECB monetary policy and fiscal policies in Member States that it would be possible to run an effective mechanism to prevent and correct economic downturns in Member States.

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