Sandra Eckert
Vincent Lindner
Andreas Nölke

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policy_center@safe-frankfurt.de | www.safe-frankfurt.de

EMU reform proposals and their (non) implementation: An overview*

Sandra Eckert, Aarhus Institute of Advanced Studies, Goethe University Frankfurt and SAFE
Vincent Lindner, Leibniz Institute for Financial Research SAFE
Andreas Nölke, Goethe University Frankfurt and SAFE

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Abstract

Following the financial crash and the subsequent recession, European policymakers have undertaken major reforms regarding the European Economic and Monetary Union (EMU). Yet, the success rate is mixed. Several reform proposals have either completely failed due to opposition forces or are still pending, sometimes for years. This article provides an overview of reforms in four major policy fields: financial stabilisation, economic governance, fiscal solidarity, and cooperative dissolution. Building on the conceptual foundation of policy analysis, it distinguishes between policy outputs and outcomes. Policy output refers to legislation being adopted or agreement on treaty changes, while policy outcomes depict the result from the implementation process.

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I. Introduction

A sustainable financial architecture for Europe relies on a stable monetary system. Although the crisis of the Economic and Monetary Union (EMU) is perceived to be less pressing today than before the ECB's intervention in 2012 ("whatever it takes") and during stand-off between the Eurogroup and the Greek government in July 2015, many observers still see substantial problems or even increasing risks (e.g. stemming from Italy). The case for such a critical assessment has only gotten stronger with the COVID-19 crisis and further economic instabilities, especially in Southern European member states. Meanwhile, many reform projects like the European Deposit Insurance System (EDIS) or the European Monetary Fund (EMF) are still pending.

These observations raise the question of the political economy of these reform processes: How can we explain why so many reforms and reform proposals remain futile in political terms? How can we explain that others went ahead relatively smoothly? Why does implementation of some reforms that have been adopted fall short?

In order to tackle this research agenda, this article takes a survey of the policy initiatives pursued for EMU stabilization and discusses their (non) implementation. It takes stock of EMU reform proposals during the last ten years. Which reforms have been implemented, which have not been implemented, what is still pending as of 2020?

In doing so, the article distinguishes between four areas covered by reform proposals:

(1) the stabilization of the financial sector in the EU, including shared supervision of the financial sector,

(2) the supervision of member state economies and economic policies,

(3) fiscal policy instruments including proposals to create permanent fiscal transfer systems and

(4) the cooperative dissolution of (parts of) the Eurozone.

Given that the amount of proposals to reform aspects of the EMU is immense, we will limit our survey to concrete proposals by the European Council (or individual member states), the European Commission or the European Parliament. Proposals that have not made it to this stage will be neglected for the time being. Our future research on reform initiatives, however, will also include additional actors such as the ECB, the EIB and civil society broadly understood (think tanks, interest groups, trade unions etc.).

The subsequent survey will not only provide a comprehensive listing of the policy proposals (in the sense defined above) but will also contain assessments whether these proposals have been implemented or not. Based on seminal research in Policy Analysis (Easton 1965, Dye 1966, Burth and Görlitz 1998, 81-82), the article distinguishes between three dimensions of reform results which relate to different stages in the policy cycle going from agenda-setting and policy formulation to implementation and evaluation:

- The output of policy formulation, i.e. the political decision and legal ratification of reform proposals. Positive output usually takes the form of laws, international treaties, and executive directives.
- The outcome of implementation, i.e. the effects of the output once put into practice The degree of outcome depends on the political follow-up of policy output, e.g. if regulatory authorities are properly staffed and funded to fulfil their mandate.
- The impact, i.e. the long-term effects of policy measures taken (has the problem been solved?).

Crucially, we will limit our discussion to output and outcome, but will not cover the impact. The main reason for this choice is that most reforms are so recent that their long- term effects cannot be discerned yet. Additionally, the evaluation of impact requires detailed knowledge about the interaction of different mechanisms in the financial and monetary system as well as in policy fields, which are likely impacted by spillover effects, such as labour markets. Assessing and evaluating these effects clearly goes beyond the disciplinary expertise provided in political science research. Still, the distinction between output and outcome is very important to the study of EMU reforms, given that some reforms have gone through policy formulation and resulted in legal acts, but have either not been implemented, or lack effectiveness due to non compliance. Often, compliance depends on varying degrees of capacity and willingness by different sets of actors in multi-level Europe.

The article is structured as follows: Chapter 2 provides additional information on EMU reform, while chapters 3 to 6 sketch the reform proposals in the four policy fields of financial stabilisation, economic governance, fiscal solidarity, and EMU dissolution. Chapter 7 compares the reform processes and highlights early findings with regard to their success rate.

II. Background on EMU reform

It is impossible to understand the magnitude and impetus of European reform in the last decade without accounting for the institutional and economic structure of the EMU pre-crisis. The EMU was widely considered incomplete during the 2000s, lacking coherent banking regulation as well as a common economic and fiscal policy. Unlike other currency unions and integrated markets, the EMU was unprepared to act during a crisis (Tooze 2018, Mody 2018). Against this background, proposals for reforming the EMU have tackled a wide spectrum of initiatives during the last ten years. They include a broad variety of topics, ranging from banking and capital markets union to fiscal union and debt forgiveness to questions of democratic legitimacy and decision-making procedures, policy coordination, private and public debt and finally the very existence of the EMU. The Four Presidents' Report (2012), the Five Presidents' Report (2015) and the White Paper process (2017) each provide an overview over the current stage of reform and outline the future agenda.

However, most research so far – particularly in Economics and Law - has focused on the economic substance of reforms, i.e. on questions such as which are necessary and which instruments might be effective. Yet, it is equally important to understand why certain ideas never make it onto the political agenda and many of those initiatives that do get so far are not implemented, due to political opposition or legal constraints. This is where core competences of political science come in, given its specialization – inter alia – on the explanation why certain political decisions are taken and others not.

Answers to these questions may yield important insights for scholars of Economics and Law. Policy advice may be perfectly economically sound, but they may still prove futile, given that they might clash with deeply held preferences of powerful veto players, parliamentary majorities or negative public sentiments. Correspondingly, policy advice should benefit from research on the reasons for the (non) implementation of EMU reform proposals. Understanding these reasons may assist in selecting between policy proposals that have a chance to be implemented and others that do not have a chance.

This article builds the foundation for a comparative analysis of EMU reform by surveying policy output and outcome. Future articles will study existing research in political science and adjacent disciplines that tries to explain the variance on the (non) adoption and implementation of reforms, both with regard to important findings on the reasons for reform outputs and outcomes, and on the theories as well as methods utilized in this context. Finally, the SAFE research project Economic and Monetary Union at a Crossroad will sketch out a future research agenda on the political economy of EMU reform proposals, including the theoretical underpinnings and methodological choices.

Importantly, reform proposals which concern the Eurozone and those which impact other aspects of the EU's social and economic framework, e.g. the single market, are often interconnected. Some reform initiatives may well have been designed for EMU only, but now include all European member states. After the withdrawal of the United Kingdom, Denmark remains the only country which has secured a legally binding opt-out from the Eurozone with all other countries theoretically expected to join in the future. Due to this linkage between EMU and EU, the survey will not only include reform proposals that only pertain to the EMU proper, but also those that were motivated by the crisis of the Eurozone but have been implemented for the whole EU. It remains to be seen, whether on the one hand the distinction between the EU and the EMU holds explanatory power for reform success and whether on the other hand it remains relevant for policy advice.

III. Stabilising the financial sector in the EU and the Eurozone

The need to stabilise the financial sector in the EU and the Eurozone became obvious after the Great Financial Crisis. While pre-crisis action focused on overcoming the fragmented structure of the European financial sector and thus emphasised market integration, post-crisis the goal moved towards stabilisation. Reforms were introduced in two stages with the introduction of micro- and macro-prudential supervision in 2011 forming the European System of Financial Supervision (ESFS, covered in section 1.1), and the creation of the European Banking Union (EBU, covered in section 1.2) after 2014, which so far targeted Eurozone countries exclusively. Moreover, since 2015 the EU strives to achieve a Capital Markets Union (CMU, covered in section 1.3) which would create a single market for capital. The complex institutional architecture of financial regulation includes an international (Basel process), European and national level.

III.1 European System of Financial Supervision (ESFS)

The EFSF was established following the recommendations of the de Larosière Report, a high-level group mandated by the European Commission in November 2008. Comprising micro- and macroprudential authorities, it seeks to secure consistent supervision across the EU. In 2011, in the context of the global Basel III reforms, a new institutional framework for supervision at both the macro- and micro-level was created. The supervision and monitoring of risks at the system level constituted a new element which relies both on the European Systemic Risk Board (ESRB) and national macroprudential authorities (NMAs) that were set up to that end. The ESRB was established in 2010 (regulation (EU) no 1092/2010), NMAs were designated following the recommendation ESRB/2011/3. The institutional set-up varies across countries, with powers being delegated to the government, the central bank, the financial authority (microprudential supervisor) or a committee with representatives from these three bodies. In 2013 the Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) required member states to designate a responsible body which could either be identical with the NMAs or entrusted with distinct national designated authorities (NDAs). The ESAs brought the cooperation in pre-existing committees for banking, insurance and securities (Committee of Banking Supervisors CEBS; Committee of Securities Regulators CESR, European Insurance and Occupational Pensions Committee EIOPC) to the next level. Three ESAs were established, the European Banking Authority (EBA), the European Securities Authority (ESMA) and the European Authority for Insurance and Pensions (EIOPA). Reforms to strengthen the governance and powers of the ESRB and ESAs in the area of prudential supervision and anti-money laundering were launched as of 2014, resulting in the adoption of secondary law in the course of 2019 (summarized in Table 1).

The functioning of the ESFS has been adapted to the COVID-19 context. At international level the Basel Committee on Banking Supervision announced deferral of implementation of the Basel III standards. This took the form of the so-called "quick fix" amendments to EU banking rules (regulation (EU) 2020/873), coming into effect as of 27 June 2020, in the EU context.

Reform discussions and key reform proposals have centred around the governance and powers of the ESRB and the ESAs (e.g. Commission proposal issued in 2017). In a nutshell, controversies are about the extent to which regulatory and oversight powers ought to be allocated across levels, i.e. between national macroprudential supervisory authorities and the ESRB, and between national competent authorities (NCAs) and the ESAs, respectively. Another issue is about alternative institutional choices. In the banking area the ESFS has been complemented by the new institutional architecture of the European Banking Union (EBU,see 2.1.2) which, as far as the ESAs are concerned, did not entrust the EBA with supervisory tasks but instead created new oversight bodies. Similar discussions about institutional design will re-emerge with the completion of the Capital Markets Union (2.1.3) where ESMA could or could not become the institution entrusted with supranational oversight.

Figure 1: EFSF Reform Proposals

Name	Output	Outcome	Target countries	Content/ goal
ESRB	ESRB regulations (EU) no 1092, 1096/2010, CRDIV, CRR 2013	implementation operational framework, establishment NMAs after 2011, NDAs after 2013	EU countries	macro-prudential supervision (stability at system level)
ESAs	EBA, EIOPA, ESMA (regulations (EU) no 1093, 1094 and 1095/2010)	in operation since 2011	EU countries	micro-prudential supervision
Reform EFSF	regulation (EU) 2019/2175, 2176 ESAs, ESRB; directive (EU) 2019/2177 new powers ESAs	transposition due by June 2021, application in stages until January 2022	EU countries	strengthen powers of ESAs and ESRB in prudential and anti-money laundering supervision
"Quick fix" (COVID19)	Regulation (EU) 2020/873	in effect June 2020	EU countries	deferral of implementation Basel III standards

III.2 The European Banking Union (EBU)

As previous reforms and the ESFS proved insufficient with the advent of the sovereign debt crisis in the Eurozone, an additional layer of regulatory control was introduced with the creation of the EBU from 2013 onwards. Two of the EBU's pillars have so far been implemented, namely the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). By contrast, a backstop for the SRM and the third pillar, the European Deposit Scheme (EDIS), proved controversial and have not yet been realised. Figure 2 provides an overview of the EBU reform agenda.

The EBU's first pillar was established with the adoption of the SSM regulation (SSMR) in 2013, the second pillar with the Banking Recovery and Resolution Directive (BRRD) as well as the Single Resolution Mechanism Regulation (SRMR) in 2014. The resolution framework was revised in 2019 (BRRD II), while some elements such as introducing a backstop to the Single Resolution Fund (SRF) remain unfinished business. Overall, the second pillar's implementation thus far runs short of making bail-in for banks a reality. The EBU's architecture built on pre-existing institutional structures and used a legal basis which did not require treaty changes. As a result, the first and second pillars are based on different treaty provisions, namely articles 127(6) TFEU for the SSM and article 114 TFEU for the SRB.

The EBU to a large extent still relies on decentralised and networked institutional structures (Eckert 2020). In its supervisory functions, the European Central Bank (ECB) relies on Joint Supervisory Teams (JSTs) including National Competent Authorities (NCAs). The Single Resolution Board (SRB) coordinates closely with National Resolution Authorities (NRAs). Fundamental reforms to simplify the complex institutional structure would require a treaty change.

Another characteristic element is that legal competencies, especially in the case of the SRM, are split across levels: resolution is covered by EU secondary legislation (BRRD), liquidation by national insolvency law, the use of public funds in resolution by the BRRD and state aid law, the use of public funds in liquidation by state aid law solely. While state aid granted under resolution is in the remit of the European Commission as the EU's competition authority, insolvency proceedings are entirely national. The need to harmonise insolvency law is a topic that reoccurs frequently in the reform debate, yet this aspiration predates financial market integration and has proven unsuccessful for decades. The creation of a backstop for the SRBis another proposal on the political agenda. While the member states committed to its creation already in 2013, it has not yet been implemented. The creation of EDIS, despite reform proposals tabled in 2019, is currently on hold and no political dynamic is in sight able to overcome political opposition.

Figure 2: EBU Reform Proposals

Name	Output	Outcome	Target countries	Content/ goal
SSM	SSMR 2013	ECB operating since 2014	Eurozone + Bulgaria, Croatia	ensure stability of banking system and consistent supervision

SRB	BRRD. SRMR 2014, BRRD II 2019	SRB operating since 2015, transposition BRRD II 12/2020	Eurozone + Bulgaria, Croatia	allow for orderly, quick and efficient bank resolution
EDIS	proposed 10/2015	-	Eurozone + Bulgaria, Croatia	protection of bank deposits in cases of insolvency/ resolution
backstop	political agreement MS 2013	-		providing a credit line or guarantees to the Single Resolution Fund (SRF)
European insolvency regime	long-standing project	-	EU countries	harmonise national bank insolvency scheme

III.3 The Capital Markets Union (CMU)

While the free movement of capital is one of the four freedoms laid down in the EU treaties, the integration of capital markets is more of a policy agenda than reality. It was enshrined in the 1992 Maastricht Treaty, and related goals were formulated in the 1999 financial services action plan. For many years, capital market integration was not more than a wish list, with nobody expecting most of various reform proposals to be quickly implemented.

A decisive step was taken by the Juncker Commission when relaunching the CMU agenda in 2015, and several legislative measures have been passed since then. They include rules on securitisation, prospectus regulation, measures relating to collective investment funds, the launch of a pan-European pension product, covered bonds and crowdfunding. Moreover, European market infrastructure regulation (EMIR) was introduced as a risk management tool for supervisory authorities. Overall, CMU aims at increasing the range of financing options and intensifying investment in companies in order to reduce Europe's reliance on bank lending. In September 2020, the European Commission adopted a new Action Plan, drawing on the advice of a High-Level Forum on CMU, which proposed various legislative measures. The Action Plan strives for the creation of a single market, but also seeks to establish a link to other EU agendas, particularly those on economic recovery post-COVID and green transformation. Two issues discussed in the context of EBU reforms reoccur in the debate on CMU creation, namely insolvency law and supranational supervision. The discrepancy between national insolvency law schemes poses an obstacle to capital market integration and a level playing field. Shifting authority towards European supervisors proved controversial, and empowerment of ESMA was blocked.

At the same time, supranational supervision of Capital Markets Union is presented as a key element in the realisation of the CMU. The minimum goal in the current context appears to be a harmonisation and convergence of supervision, but steps are incremental at best. Recent changes to the financing of ESMA have reduced the EU authority's dependence on the good will of national capital market supervisors, which in the past were providing the bulk of its funding. Another element of change is that ESMA has been entrusted with Central Counterparty Clearing House (CCP) supervision in third countries (Friedrich, Resch, and Thiemann 2018). Overall, it is however fair to say that no major breakthroughs have occurred yet. As in the banking area, the question about shifting further competencies towards the European level proves controversial. Moreover, the issue of institutional design re-emerges, notably in the form whether ESMA shall be granted more powers, or whether new supervisory bodies shall be introduced, as was the case when the EBU was created.

Figure 3: CMU Reform Proposals

Name	Output	Outcome	Target countries	Content/ goal
CMU	Action plan 09/2015, agreement on legislative initiatives, some adopted	implementati on underway	EU	create single market for capital
CMU	action plan 2020	-	EU	create single market for capital linked to recovery and green transformation
European insolvency regime	long-standing project	-	EU	provide for a level playing field

IV. Supervision of member state economies and economic and welfare policies

Supervision and regulation of member states' finances has been a cornerstone of the Eurozone since its very beginning. The well-known Maastricht criteria for sound fiscal policies committed EMU candidates to a maximum 60% debt to GDP ratio and 3% annual deficit at the time they wanted to join the currency union. The Stability and Growth Pact (SGP) of 1997 extended these rules ad infinitum for all Eurozone countries. Each year member states were obliged to send a compliance report to the European Commission and the Council of Finance Ministers (ECOFIN), which could start excessive deficit proceedings leading to possible fines against non compliant countries and did so against Portugal (2002) and Greece (2005). ECOFIN, however, did not start the same proceedings against France and Germany, when they failed to meet the criteria.

While pre-crisis supervision happened almost invisible in the „shadow of hierarchy“, post-crisis supervision is characterized by direct European surveillance and intervention and vertical integration of European economies. The New Economic Governance (NEG) constantly reviews, compares and benchmarks countries performances (Erne 2018). The last ten years have seen both the development of new rules, which tie financial support to so-called structural reforms on labour markets, welfare benefits and pension schemes, and new implementation instruments in the European Semester. While some economic governance proposals have been not been written into law, the more pressing question is, whether successful reforms have been fully or partially implemented. Hence, chapter 3.1 depicts governance proposals, while chapter 2 addresses the more difficult question of enforcement and implementation.

IV.1 New economic governance in the Eurozone

European institutions created several new supervisory bodies and regulatorycompetences between 2010 and 2012 in response to the Euro and sovereign debt crises. The overarching topic is the need for European actors to interfere into national budgets and to stabilise public finances. The Euro Plus Act (also Competiveness Pact) of March 2011 increased monitoring on public finances, labour markets, and tax policies within the Open Method of Coordination. Among other things, participant member states committed to integrate the SGP into national legislation. The six-pack legislation increased European oversight and national compliance with the SGP and introduced the Macro-Economic Imbalances Procedure (MIP), which consists of mid-term indicators to assess the stability of public and private debt, using a range of indicators. The European Fiscal Compact (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)) which became law on 1 January 2013 complemented the SGP with the notable commitment of all EMU members towards a budget surplus. Ratification of the Fiscal Compact was also a precondition for financial aid from the European Stability Mechanism (ESM), which entered into force in September 2012. Table 1 presents an overview of the measures, which shaped the economic supervision after 2010.

These new regulations share some significant features with regard to the issue of EMU reform implementation: First, the legislative process was quick. Second, the new economic governance often exceeded the legal boundaries of European treaties and took the form of intergovernmental subsidiary agreements. Third, the new economic governance regime introduced a range of new numerical indicators and scoreboards, which countries have to provide, and which have become a cornerstone for EU policymaking and governance (Åkerman, Auranen, and Valkeasuo 2018). However, the reliability of national and regional reporting has been put into question (Savage and Howarth 2018). Finally, when the

Commission proposed 14 social indicators to accompany the EPSR in 2017, two were dropped in the process, another issue to be explained in subsequent research.

Figure 4: Reforms to European economic governance

Name	Output	Outcome	Target countries	Content
Euro Plus Pact (also: Competitiveness Pact)	Entry into force 25 March 2011	Not implemented	EMU, Bulgaria, Denmark, Poland, Romania	Increased economic monitoring via the Open Method of Coordination (OMC)
Common Consolidated Corporate Tax Base (CCCTB)	Twice proposed (2011, 2016), yet pending	-	EU	Convergence of corporate tax regulations
Six-Pack	Entry into force 13 December 2011	Low degree of compliance	EMU	Addition to SGP, Macro- economic Imbalances Procedure (MIP)
Two-Pack	Entry into force 30 May 2013	Low degree of compliance	EMU	Addition to SGP, Enhanced surveillance, partly identical with Fiscal Compact
European Fiscal Compact = Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) = Fiscal Stability Treaty	Entry into force 1 January 2013	Low degree of compliance	EMU (mandatory), all but UK/ Czech Republic voluntary	Addition to SGP, introduces Excessive Deficit Procedure (EDP) automatic revision and enforcement of fiscal and budgetary rules, mandates member states to adopt SGP into national law
Social Scoreboard	Commission Communication 2 October 2013	Medium degree of implementation	EMU+opt-in	Addition of five social indicators to economic surveillance, non enforcable
Extended Social Scoreboard with the European Pillar of Social Rights	Inter-Institutional Proclamation 17 November 2017	Medium degree of implementation, low degree of compliance	EU	12 of 14 proposed social indicators, excluding activation and wage indicator, non enforcable
Euro area Treasury	White Paper 2017, no proposal	-	EMU	In charge of Euro area budget and oversight
European Minister of Economy and Finance	White Paper 2017, no proposal	-	EMU	Head of Eurogroup and Commission VP,

IV.2 Enforcement, oversight, and implementation

While the years 2010-2012 built the legal apparatus for the economic supervision regime, the following years are characterized by both failures to implement new reforms and by organizational disputes, how supervision should be enforced. The economic supervision regulations vary in enforcement and institutionalisation. Notably, the Euro Plus Pact, which was agreed within the framework of EU soft law, did not bring any institutional oversight and its status is unclear. Most other reforms however have contributed to a build-up of an institutionalised review process, which has largely expanded European oversight capacity and which, at least in theory, is connected to enforcement rules (Heins and de la Porte 2015, de la Porte and Heins 2015, Tesche 2020, Deutsche Bank 2017). Formally, the oversight of public finances within the Fiscal Compact framework take place in the European Semester framework. Each year, the European Commission in agreement with the European Council will issue country reports, which outline possible imbalances and problem areas. This results in country- specific recommendations (CSR) which accordingly propose changes. The policy fields cover a wide range of policies from health and pension systems over poverty and (un-)employment to national tax systems.

Supervision and enforcement of programme countries, i.e. member states who receive assistance from the ESM, on the other hand has lied more firmly in the hands of national governments. The Council of Finance Ministers (ECOFIN) and the Eurogroup, an informal meeting of EMU finance ministers, have exercised direct control over programme country states finances (Puetter 2012, 2006, Schulten and Müller 2013).

After 2012, two reasons have been given, why further reform of the economic governance regime was necessary: First, the lack of democratic legitimacy and the fact that the reforms are partly placed outside the EU legal institutional framework and second, the dominance of fiscal targets over social policy goals. The European Council Roadmap for the completion of the EMU called for greater involvement of national legislative bodies and the European Parliament once the economic governance reforms were in place (European Council 2012).

A Commission proposal to transform the ESM into a European Monetary Fund (EMF) was met by Council opposition in 2017. Similarly, a proposal to integrate the Fiscal Compact into the EU legal acquis is still in the legislative process. A Commission proposal for a common consolidated corporate tax base (CCCTB) has indeed launched twice, once in 2011 as part of the Euro Plus Pact and a second time in 2016, yet the proposal has now been sitting with the Council since 2016. Likewise, several institutional changes have been mentioned in Commission Communications and road maps without becoming formal proposals. These include the formation of the new position of Euro area finance minister, who also shares Eurogroup meetings and a Euro Treasury (European Commission 2017). Despite backing from national governments or the European Parliament at certain times, these ideas were never considered seriously and never moved to the legislative stage.

Against widespread criticism that the governance reforms advocated austerity, welfare state retrenchment, labour market flexibilization, ignored negative social developments and thereby undercut the EU's policy targets of social cohesion and reduction of poverty (Verdun and Zeitlin 2018, Zeitlin and Vanhercke 2018, Zeitlin 2011, Bekker and Klosse 2013), the European institutions have integrated social indicators twice into the European Semester framework. A first step in this direction was taken with the Social Scoreboard, which introduced five social indicators to the Semester process in 2013. Additionally, the European Pillar of Social Rights of 2017 was accompanied by a further twelve headline indicators. However, unless most economic governance regulations, social indicators lack formal enforcement procedures (Crespy and Menz 2015, de la Porte and Heins 2015). The formation of new Commission units to assist member states' economic reform agendas, the Structural Reform Support Service (SRSS) from 2015-2020 and the Directorate-General for Structural Reform Support (DG REFORM) since January 2020, have received little attention from the research community. The degree, to which they assist the enforcement of Commission recommendations, is unclear.

Finally, the EU response to the pandemic and the economic recession indicates a fundamental shake-up of the supervision system, according to a recent European Commission press release (European Commission 2020c). Central elements in the European Semester, Country-Specific Recommendations and Country Reports, will not be published from 2021 onwards. Instead, countries will have to submit Recovery and Resilience Plans (RRP) under the Recovery and Resilience Facility (RRF) to be eligible for recovery funding, rendering the Semester

„practically dead" (Guttenberg 2020). If European Parliament and European Council agree with the proposal in general, the European system of economic and social oversight would undergo a second major change in 20 years. The first decade was dominated by fiscal rules in the „shadow of hierarchy". The financial crisis then led to the establishment of the European Semester in 2020 and its focus on details, country reporting and recommendations with a heavy focus on conditionality. Now, it looks like the European Commission might levy its power to distribute recovery funding into even more mainstreaming of member states' economic and fiscal policies.

V. Fiscal solidarity and fiscal capacity

The need for fiscal solidarity within the monetary union has been stressed early on and calls to add a fiscal layer to the EMU institutional design predate the recent crises. Proposals for greater fiscal integration can be divided into four sub-groups: (1) Refinancing via loans between member states (2) insurance-based fiscal stabilizers, which manage automatic transfers in recessions (3) the common management of debt, either ex-post via debt-forgiveness/bail-out or ex-ante via common bond issuance and (4) a shared expenditure stream, either via a common budget or shared investment programmes.,

The Eurocrisis has given new rise to all three concepts and the last decade has been characterized by a wide array of proposals. Europe's unpreparedness in dealing with the fallouts from the financial crash after 2008 has revealed the „design failures“ of the EMU (De Grauwe 2013) and consequently, has featured prominently in top-level reform proposals as the Four Presidents‘ Report (2012), the Five Presidents‘ Report (2015) and the White Paper on the Future of the EU (2017). Likewise, a number of economists, think-tanks, the European Parliament, elements within the European Commission and national governments have at different times supported different versions of fiscal solidarity.

Fiscal solidarity in the form of direct contributions or a fiscal capacity is often described as the missing second pillar for the completion of an EMU fiscal union in the form of ex-post risk- sharing between member states. The first pillar of ex-ante-discipline on the other hand has been put at the centre of the Eurozone with the budgetary constraints in the Stability and Growth Pact (SGP)(Acharya and Steffen 2017, 17), see also section 2 above. Table 2 presents an overview of solidarity concepts and their status.

Figure 5: Fiscal Solidarity Proposals

Name	Output	Outcome	Target countries	Content/goal
European Stability Mechanism	Entry into force 27 September 2012	Five programme countries, unused since 2018	EMU	Provides loans to programme countries
European Monetary Fund	Commission proposal 6 December 2017 pending	-	EMU	Integrate ESM into EU economic governance
EU unemployment (re-)insurance	Pending, Part of EU White Paper 2017, Commission Work Programme 2020	-	EMU or EU member states	Automatic fiscal stabilizer
Euro Area Budget	Pending, Part of EU White Paper 2017	-	EMU	Investment capacity for EMU
Eurobonds	European Commission Proposal 2011, failed	-	EMU	European lending capacity
Investment Plan for Europe (IPE), Juncker Plan	Regulation (EU) 2015/1017, entry into force 4 July 2015	Top-up of investment capacity by January 2018, volume of 630 bn. € spent 2014- 2020	EU	Crowding-in of private investment through cutting of red tape and creation of European Fund for Strategic Investments (EFSI) with EIB,
InvestEU	Commission Proposal June 2018, unclear	-	EU	Follow-up of IPE
Coronabonds = Social Bonds = SURE	Activation on 22 September 2020	-	EU, 16 participating at the moment	Loans to support national unemployment insurances and employment policies, up to 100 bn. €
Recovery and Reform Facility (RRF)	Pending in the Council	-	EU	Stimulus package, 672.5 bn € in loans and grants

V.1 European Stability Mechanism (ESM) / European Monetary Fund (EMF)

From 2010 onwards, the EMU member states developed ad-hoc solutions to prevent debt default by countries, which were hit by the financial crash. Starting with the European Financial Stability Facility (EFSF) in June 2010, they granted loans to countries, which could not meet their payments and could not refinance their loans on international capital markets. In 2012, the EFSF was transformed into the European Stability Mechanism (ESM) with the aim to institutionalise the structure. Both the EFSF and the ESM were inter-governmental treaties between the Eurozone countries, and were thus outside the legal reach of EU treaties. At the same time, however, the decision-making process within the ESM is deeply embedded into the Eurozone governance structure (Howarth and Spendzharova 2019). The formation of the ESM was linked to the new economic governance. Ratification of the Fiscal Compact was a precondition for financial aid from the ESM, which entered into force in September 2012. As of 2018, when the third loan programme for Greece was completed, Greece, Portugal, Ireland, Spain and Cyprus have taken out loans from the ESM and the EFSF (European Stability Mechanism 2018). A 2017 proposal to integrate the ESM into the European legal framework and to build a European Monetary Fund has not been implemented. The EMF would replace the lending capacity of the ESM, yet as part of the EU legal framework, it would not require national parliamentary approval for each loan emission.

V.2 European Unemployment Insurance

A European unemployment benefit scheme is the most common proposal for fiscal solidarity in the EMU and has been in the European debate since the 1970s. The Marjolin report, which presented an early outline for an economic and monetary union, argued for a community unemployment benefit fund to prove that „community solidarity is a reality“(Marjolin 1975, 34). As a first step towards EMU, the European Unemployment Benefit Scheme (EUBS) was mentioned alongside industrial, energy, capital markets and budgetary policies – a striking similarity to the EU reform agenda since 2010. The rationale behind EUBS and the call for fiscal solidarity in general has been two-fold. First, it should increase support for and belonging to the European project and second, it should fulfil the economic functions of an automatic stabilizer against shocks and business cycle harmonization. Proposals vary in the design of European unemployment-based fiscal stabilizers and the relation to national systems of social security. The European system might add an additional layer to national systems and function as a re-insurance to minimize risk, might replace those or might add additional benefit payments once a critical juncture has been hit (Strauss 2016).

While the idea was taken up by the MacDougall Report on public finances in 1977 (MacDougall 1977, 58, 68), it was notably absent from the Delors Report 1989, which laid the cornerstone for the creation of the EMU with the Maastricht Treaty in 1992. The idea that fiscal elements were necessary to prevent structural inequality within a monetary union had given way to the perception that the monetary union and the single market in itself would lead to economic convergence (Enderlein and Rubio 2014, 15-16). German economist Sebastian Dullien renewed the debate with a study published in February 2008, in which he argued that convergence did not occur during the boom period of the 2000s and that the Eurozone was unprepared for shocks and cyclical downturns (Dullien 2008).

The last decade has seen more than 50 studies on this issue, partly sponsored by European and national institutions. European and national interest groups, parties, central banks, and social partners have positioned themselves making EUBS one of the most contested policy ideas in the field of EMU reform. Since 2018, the German Ministry of Finance has showed signs of relaxing opposition to the EUBS and has undertaken a reframing exercise. The annex to the 2020 Commission work programme promises a legislative initiative on unemployment insurance for the 4th quarter of 2020 (European Commission 2020a). The new term European unemployment re-insurance underscores that an eventual system would not replace national systems of unemployment benefit but would add a European layer to safeguard said national systems.

V.3 Euro Area Budget

A missing fiscal capacity has been identified as one of the main weaknesses for the Eurozone. Proponents argue that such a fiscal capacity would allow the EMU to react to economic downturns while tackling the social, economic, and ecological challenges facing the EU. Politically, this approach aligns with the demand for a European Green New Deal to make a transition towards a sustainable, carbon-free, zero-waste economy and society (Pettifor 2020). The European Commission adapted a European Green Deal in early 2020.

Importantly, the so-called Euro area budget with a capacity of 30 bn. €, which European finance ministers agreed on in 2019 is a new layer of EU fiscal structure in name only. Additionally, its purpose has changed dramatically: No longer is it designed to challenge structural inequalities within the Eurozone, but to help non EMU member states to join EMU. Its focus on competitiveness, structural reforms and social investment does not indicate a turn to fiscal solidarity, but a continuation of the EU's budgetary priorities (Schoeller 2020). As such, it is linked to the Structural Reform Support Programme (see chapter 2). The latest activities on budgeting and taxation, especially the finalisation of the Multi-Annual Financial Framework (MFF) for 2021-2027, do not indicate a move towards further fiscal integration via this route. The European Commission has also proposed and sometimes delivered various new programs to target the social and economic crises in member states, sometimes with a particular focus on the Eurozone, including the Social Investment Package (2013), the Youth Guarantee (2013) and the Investment Plan for Europe (Juncker Plan, 2015). However, new budgets and funding programs were often made up of old funding targets. For example, the Youth Guarantee built on already existing funding commitments via the European Social Fund (ESF) and the Social Investment Package did not include any additional funding for member states. Furthermore, the limited financial investment of these programs did not target structural elements of imbalance in the Eurozone, but instead provided a social investment and employability approach to very specific groups of citizens.

The Juncker Plan, its predecessor the European Fund for Strategic Investments (EFSI) and its follow-up InvestEU Programme (2021) form the third element of budgetary reform proposals. They aim to increase private and public investment in designated areas as research, climate change or infrastructure, partially combining already existing programmes. All three programmes rely on the European Investment Bank (EBI) for crowding-in private investments. InvestEU, however has been downgraded to 5.6 bn. € and integrated into the EU's response to COVID-19. In light of the recession, the EU has replaced the investment-based approach with a stimulus package, the Recovery and Resilience Facility (RFF), which is currently pending.

V.4 Debt collectivization/common bonds

Common European bonds have been discussed as a possible solution to the sovereign debt crisis in European member states early on, and also in recent months as a response to the COVID-19 crisis. A European Commission Green Paper in 2011, which outlined three versions of Eurobonds, argued that common debt issuance could help countries as Greece or Italy to overcome their liquidity problem and to refinance their debt (European Commission 2011). However, this initiative has not led to implementation.

Hence, the European Council's decision to issue so-called corona bonds, a time-limited version of common European bonds to help European economies overcome the pandemic-induced recession, remains the first successful implementation of common bonds. Corona bonds, sometimes dubbed social bonds, are given out via the SURE framework (European instrumentfor temporary Support to mitigate Unemployment Risks in an Emergency), which aid national unemployment insurance systems to cope with higher costs and support the implementation of short-time-works schemes during the crisis. It takes the form of beneficial loans taken out by the Commission and collectively secured by all member states (European Council 2020). The European Commission proposed SURE on 4 April 2020 and the Council agreed on it a month later leading to the grant of financial support to 16 EU member states in late August 2020 (European Commission 2020b). Member states will also have to report on use and impact of their investments using SURE, adding to the concept of conditionality (section 2 above).

Finally, debt forgiveness was discussed to decrease the interest payment burden on certain Eurozone countries. While never elaborated, this idea was pushed by countries most affected by the Eurocrisis who argued that it serves a common cause (Genschel and Jachtenfuchs 2018, 188). Yet, debt forgiveness was soon dismissed during the early stages of the Eurocrisis and never even reached a state, where academics or think-tanks would start to bring proposals forward.

V.5 Recovery and Resilience Facility

Amidst the economic recession caused by the COVID-19-pandemic, European member states agreed in principle on the creation of the Recovery and Resilience Facility (RRF), which is a mix of loans and grants given to member states by the European Commission. It is the main component of Next Generation EU, which also includes some investment components from pre-Covid budgetary proposals. The RRF allows the European Commission to raise up to

€672.5 bn from capital markets and to distribute them in loans and grants to member states. As such, the RRF is a temporary common European bond, designed to work as a stimulus for the European economy. Funds from the RRF shall be used to invest in European flagship policy areas as digital and green policies and the usage and implementation of RRF funds is monitored via the European Semester process. It is thus again linked to conditionality. Currently, the RRF is still pending.

VI. Cooperative dissolution of (parts) of the Eurozone

Due to the severity of the economic crisis between 2010 and 2012 and the diverging fates of Northern and Southern Europe during this crisis, there was a lively debate on the likelihood of survival of the Eurozone. Some of those who were very sceptical regarding the survival of Eurozone suggested that the latter should be dissolved, or that individual countries (such as Greece) should leave.

The reasons for Eurozone scepticism were quite diverse, but mostly linked to the diversity of the member economies, in particular between Germany on the one side, and the Southern European economies on the other (Nölke 2016). Given this diversity, observers in the Southern Eurozone were worried that their economies would be negatively affected by Eurozone membership, whereas observers from the Norther Eurozone were worried about fiscal responsibilities with regard to a stabilization of the common currency.

However, this mostly was a debate in academia, the media and on the fringes of the political circuit. No politician in a leading government position within the Eurozone ever shared proposals for a cooperative dissolution of (parts of) the Eurozone in public. In a few cases, members of government such as Varoufakis in Greece and Salvini in Italy, but also Schäuble in Germany made vague announcements about an “Italexit” or “Grexit”, but this never came down to clear policy proposals submitted to public debate. Still, it makes sense to incorporate these policy options (and their noon-implementation) in a study about EMU reform.

The focus will be on those proposals that suggest a cooperative dissolution of the Eurozone within the current financial and monetary system, either in general (4.1) or for individual countries (4.2). In addition, there are also proposals to replace the current financial and monetary system altogether – such as a different system for money creation or subaltern currency networks (North 2016) – but these are not specific to Economic and Monetary Union.

VI.1 Options for the general dissolution of the Eurozone

Although there was temporarily a very lively debate about options for the dissolution of the Eurozone – a British foundation even organized an open competition for the best proposal and awarded a well-funded prize (Wolfson Economics Prize 2012) – there are hardly any option that has been given a detailed analysis.

Among the most popular proposals temporarily was a split of the Eurozone into a "North Euro" and "South Euro". In this proposal, countries would not return to national currencies, but keep a common currency. However, given the heterogeneity of the economic models of themember states, in particular between the "Club Med" (including or excluding France) on the one side and Germany as well as smaller Northern economies (now mainly organized in the Hanseatic League) on the other, the Euro would be replaced by two common currencies. Proposals along these lines were articulated by academics and politicians both on the Right (Meyer 2010, Dilger 2018) and on the Left (Flassbeck and Spiecker 2010, Streeck 2013, Durand and Villemot 2018,Lapavitsas 2018). However, the specific economic, legal and political details for this split were never developed in much detail.

An institutionally much more clear option would be a return to a revised European Monetary System, either for the Eurozone as a whole or for individual countries. The EMS operated between 1979 and 1999 and was replaced by the Euro as common currency for the Eurozone and the Exchange Rate Mechanism (ERM) II for countries related to the Eurozone (currently, Denmark, Croatia and Bulgaria are members of the latter). Given that the EMS is a tried and tested system, and that parts of the system still are operational (ERM II), a return to a reformed EMS is probably the most clearly worked-out option for a cooperative dissolution of the Eurozone. However, apart from Scharpf (2016) as well as Höpner and Spielau (2016), researchers associated with the Max-Planck-Institute for Social Research in Cologne, this reform proposal has never been articulated.

The probably most comprehensive public proposal for a dissolution of the Eurozone has been developed by Polish authors and was published as a National Bank of Poland Working Paper. Kawalec and Pytlarczyk (2013) developed a proposal for a consensual replacement of the Euro by an alternative system ofcurrency coordination, starting with the exit for the most competitive economies from the Euro, whereas the less competitive economies should remain within the common currency. Crucially, the European Central Bank would remain as the central bank for all Eurozone member countries and as manager for a revised European Monetary System. Again, this proposal has never been taken up by a relevant political actor.

VI.2 The Greek crisis and Italian challenges: options for individual countries

Discussions over the option for Greece or Italy to leave developed much later than those on the dissolution of the Eurozone in general. Although Greece was the focus of the early Eurozone crisis in 2010/11, proposals for a Greek exit of the Eurozone were hardly discussed at that time. This has changed with the advent of the Syriza-led government in 2015 and the later stand-off with the Troika. Short-term Minister of Finance Yanis Varoufakis revealed after his demission that he had prepared for a contingency plan for a situation where the country would have evicted from the Euro. The focus of this plan would have been the introduction of a parallel currency to the Euro, as a first step for a return to the Drachma as national currencies.

Parallel currencies were generally at the focus of most technical debates about options for a cooperative dissolution of the Eurozone. This preference was based on the observation that there was no political willingness at all in the Eurozone to dissolve the common currency in general. Correspondingly, individual countries would need to search for a way to exit on their own terms.

The design of a parallel currency has been taken up by many academics (for an overview see Schuster 2015). The only case where something along these lines has been come closer to practical implementation was the case of the so-called “Minibots” that were proposed, but later not introduced by the short-lived Cinque Stelle-Lega-government in Italy, although they were part of the coalition agreement in 2018. The “BOT” stands for “Buono Ordinario del Tresoro”, referring to Italian state bonds with a very short time period (a few months) and an extremely small amount (between 5 and 500 Euro). The short-term idea for the introduction of the Minibots would be to allow the state to pay its debt to Italian companies, and for Italian citizens to pay their taxes with this parallel currency. The long-term idea was to have an alternative currency available, should Italy decide to drop out of the Euro. The assumption would be that this currency would devalue against the Euro, thereby increasing the competitiveness of the Italian economy (Meyer 2020, Kowalski 2019). However, this proposal has never been implemented.

VII. Reform proposals for EMU stabilization – an initial comparative perspective

Our study has demonstrated that there is substantial variety between the fates of EMU reform proposals in the four different policy fields. Whereas most proposals for the stabilization of the financial sector have been adopted and implemented, the field of economic governance combines substantial reform activity with uneven outcome. Initiatives on fiscal solidarity have largely been unsuccessful already at the stage of policy formulation, and the ESM shows implementation problems and resistance to further reform. Eurozone dissolution efforts, finally, are completely inconsistent.

Where reforms have been adopted and implemented, we note interesting differences as to the different routes of integration as well as institutional outcomes. While some reforms have been undertaken via the Community Method, i.e. pre-dominantly on European level driven by the Commission, others are constituted via intergovernmental treaties. Unlike the Community Method, international treaties demand national parliamentary approval, so that public opinion will likely play a greater role and the politics will be more contested. However, once approval is achieved, this institutional framework might lead to a higher degree of implementation. Moreover, institutional outcomes and governance arrangements are most of the time characterised by their multi-level nature, with a limited shift of supervisory or regulatory authority towards the European level, which leads to a need to cooperate with national bodies.

It is striking that the patterns we observe with regards to reform outputs and outcomes are in line with the four distinct types of policies (regulatory, redistributive, distributive and constitutive) Theodore Lowi (1972) identified in his seminal work. Lowi famously argued that "policies determine politics" (1972, 299), i.e. that the types of policies determine the conflict intensity in the political process – and thereby also the chances of implementation of policy initiatives. More specifically, redistributive policies that re-allocate wealth – such as taxation or welfare – lead to highly conflictual politics, as witnessed in case of fiscal solidarity. Regulatory policies that seek to correct perceived (potential) market failures, in contrast, are less conflictive, as is observable in case of financial market regulation. Here as well, however, aspects that have a redistributive effect such as the backstop for resolution or the EDIS, proved controversial and ran short of being adopted. Constituent policies that define the basic rules of the game, such as decision-making processes, vary very much in their conflictual character, depending on the problem at hand. Arguably, the policies in the field of supervision of member state economic policies were easy to decide (but difficult to implement in any comprehensive way), whereas the dissolution of (parts of) the Eurozone was unspeakable on official level. Moreover, the democratic deficit of the EMU has led to initiatives to change the constitutional arrangements, to replace the Eurogroup with a more accountable body.

These are only preliminary conclusions. The subsequent paper will survey existing research on the (non) implementation of EMU reform proposals. What do we know about the drivers of (non) implementation, and what not?

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