FISCAL UNION IN THE EUROZONE- REMEDY OR PIPE DREAM?

UNIA BUDŻETOWA W STREFIE EURO-REMEDIUM CZY MRZONKA?

Justyna Sikora

Introduction

The European Monetary Union (EMU) is a unique form of a monetary union, because the monetary policy was transferred to the central level, whereas the conduct of economic and fiscal policy was left at the national level. The EMU's institutional framework is subject of a heated debate and the current debt crisis added new arguments to the discussion on the proper fiscal policy arrangements in the EMU. The voices that the EMU should be supplemented by the fiscal union to assure its stability are more numerous. The aim of this paper is to contribute to this debate by reviewing the theory of fiscal federalism and analyzing the main flaws in the euro area framework as well as presenting and evaluating reforms of economic governance. The paper should answer the question whether the fiscal union would be an adequate remedy to the problems of the eurozone.

JEL Classification: E62, H77,

Key words: fiscal federalism, fiscal union, economic governance

Streszczenie

Strefa euro jest unikalną formą unii walutowej, w której polityka monetarna jest prowadzona na szczeblu centralnym, natomiast polityka gospodarcza i budżetowa pozostały w kompetencjach narodowych. Ramy instytucjonalne strefy euro oraz odpowiednia koordynacja polityk budżetowych stanowią obecnie przedmiot międzynarodowej debaty, dodatkowo zaostrzonej przez kryzys zadłużenia. Opinie, iż strefa euro powinna zostać uzupełniona unią budżetową, są coraz bardziej liczne. Artykuł ma na celu przyłączenie się do toczącej się debaty poprzez przegląd teorii federalizmu fiskalnego, analizę głównych braków strukturalnych w konstrukcji strefy euro, a także przedstawienie i ocenę wprowadzonych reform w obszarze zarządzania gospodarczego. Powinien on odpowiedzieć na pytanie, czy unia budżetowa stanowi wystarczające remedium na obecne problemy strefy euro.

Klasyfikacja JEL: E62, H77,

Słowa kluczowe: federalizm fiskalny, unia budżetowa, zarządzanie gospodarcze

1. FISCAL FEDERALISM AND MONETARY UNIONS

A monetary union is defined as a group of states which share a single currency or its equivalent without necessarily having any further integration. In the strictest sense monetary union means a total abandonment of separate national currencies and delegation of monetary policy making to the central level. While the biggest advantage of a monetary union is reduction of transaction costs, individual countries lose control over money supply and exchange rate policy and cannot use their instruments in case of an economic shock. The only tool left is a fiscal policy[1]. According to the theory of the optimum currency areas (OCA) the success of a currency union depends on how closely it fulfills the OCA conditions i. a. degree of fiscal policy integration[2], openness of the economy, high internal (interregional and interindustrial) mobility of production factors, especially labor, or high flexibility of wages[3]. Unless the above mentioned characteristics are sufficiently developed, the appropriate fiscal policy may replace the loss of the exchange rate channel to adjust asymmetric shocks. However, Mundell suggests that the creation of a monetary union triggers integration of financial markets and development of market-based risk-sharing mechanisms, which may minimize negative spillovers of asymmetric shocks and substitute fiscal policy making. If not, a system of interregional transfers to soften the negative consequences of shocks is crucial[4].

The concept of a fiscal union entails the fiscal federalism among its members, which addresses the vertical structure of the public sector and the role of the central government in distributing taxes and public spending. In general fiscal federalism can be described as delimiting revenue sources and budget expenditures between central government and lower government levels based on a cooperative arrangement between members of a fiscal union. Regarding the constitutional state organization fiscal federalism assumes assigning public competences and political power to several levels ensuring constitutional and decisional sanctions for each entity forming the state. Each level of a federal state possesses its own decisional bodies, own legislatives and Constitution. Moreover, each government level has competences to manage and provide public services[5].

Sorens identified five elements of an “ideal type” of fiscal federalism:

1) subcentral government levels enjoy “programmatic autonomy” to decide on economic policy
2) they face hard budget constraint and cover their spending mainly by autonomous revenues (“no bailout” rule)
3) there exists a common market with free flow of goods, capital and labor within the fiscal union
4) the system is institutionalized

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[1] Cohen B., *Monetary Unions*, EH.Net Encyclopedia, 10.02.2008, {online, access: 01.04.2012], http://eh.net/encyclopedia/article/cohen.monetary.unions

[2] Similarities in fiscal transfer systems counteract asymmetric shocks, and a common budget enables transfers to the countries hit by asymmetric shocks.

[3] Mundell R., *A theory of Optimum Currency Area*, The American Economic Review 51(4), September 1961, p. 657-665.

[4] Mundell R., *Uncommon arguments for common currencies*, [in:] H. G. Johnson and A.K. Swoboda (eds.), *The economics of common currencies,* Allen and Unwin, London 1973, p. 114-132.

[5] Florin O., *Fiscal federalism and fiscal decentralization in an enlarged European Union,* The Journal of the Faculty of Economics of University of Oradea, Vol.. 1, December 2010, p. 623-628, [online, access: 5.04.2012], http://anale.steconomiceuoradea.ro/volume/2010/n2/098.pdf

5) subcentral governments participate in the decision-making process at the central level[6].

In a classical model of fiscal federalism established by Musgrave (1959) and developed by Oates (1972) the three basic policy functions-allocation, distribution and stabilization, are assigned to different levels of government. Stabilization, income redistribution and provision of goods and services consumed by the entire population, e.g. defense, should lie in competences of a central government. Only the allocation function and provision of goods and services whose consumption is limited to local jurisdiction should be decentralized. Local governments are closer to their constituencies and know better local preferences or cost conditions. Contrary, central government would have difficulties in determining different preferences in all jurisdictions. Tailoring output of local goods and services to characteristic local preferences and circumstances can increase economic welfare which will be greater than that achieved by uniform levels of such goods and services provided centrally[7].

The main advantages of fiscal federalism is the fact that it responds to different preferences across jurisdictions, induces efficient allocation of national resources and improves political participation and sense of being a part of a democratic community. Furthermore, there are positive externalities resulting from intergovernmental competition, e.g. fiscal competition among decentralized local governments leads to more efficient provision of congestible public goods, but only in case if there is a free mobility of households and firms and there is no interdependency between policies of different jurisdictions[8]. Finally, empirical research based on 43 democracies conducted by Sorens proved that fiscal federalism reduces government consumption and government GDP share[9]. On the other hand, the main costs of fiscal federalism are limitation of central government's autonomy and assignment of some competences to its lower levels. Consequently, in extreme cases it may lead to difficulties in implementation of centrally coordinated economic policies or central provision of collective goods.

To sum up, a system of fiscal federalism can mitigate negative spillovers of asymmetric shocks through regional insurance and interregional transfers. Although it is not the necessary condition to form a monetary union and from the historical perspective most federal unions introduced common currency before adopting fiscal federalism, Eichengreen states that the monetary union accompanied by fiscal union is likely to function more smoothly than a monetary union without it[10]. Moreover, many assumptions mentioned above must be fulfilled so that the fiscal centralization does not result in high macroeconomic imbalances, high inflation and unsustainable debt growth.

2. FLAWS IN THE EURO AREA FRAMEWORK

The eurozone is an incomplete project that requires some changes in its institutional framework to become more viable and resistant to negative spillovers of economic slowdown. The main root of the current economic problems in the eurozone (accumulation of debt levels, current account deficits in the euro area periphery and large current account imbalances) are

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[6] Sorens J., *Fiscal federalism: a return to theory and measurement,* working paper, Department of political science, University of Buffalo, 13.11.2008, [online, access: 5.04.2012], http://ssrn.com/abstract=1301096 or http://dx.doi.org/10.2139/ssrn.1301096, p. 1-4.

[7] Oates W., *An essay on fiscal federalism,* Journal of economic literature, Vol. 37, No.3., September 1999, p. 1120-1122,

[8] Inman R., Rubinfeld D., *Rethinking federalism,* Journal of Economic Perspectives, Vol. 11, No.4 , 1997, p.44-48.

[9] Sorens J., *op.cit,* p. 21.

[10] Eichengreen B., *Is Europe an optimum currency area?,* NBER Working Paper No. 3579, 1991, [online, access: 5.04.2012], http://www.nber.org/papers/w3579.pdf?new_window=1, p.16-24.

deficiencies in its construction. The eurozone is a monetary union with centralized monetary policy, common currency and central bank, whereas there lacks economic union. There is no fiscal union, no economic governance institutions and no effective coordination of economic policies. Almost all economic policy instruments were left at the national level. De Grauwe even states that the structural problems of the eurozone is the fact that it is not embedded in a political union. It has no mechanisms to ensure convergence of member states' competitive positions and prevent trade imbalances, and countries losing competitiveness experience stronger deterioration of their budgetary positions[11].

In the eurozone there is no mechanism of systematic net fiscal transfers across the countries which would provide stabilization function. Also labor mobility remains relatively low. Moreover, the monetary union was expected to enhance integration of capital markets so that private financial flows would be able to mitigate shocks. However, this effect does not seem to be as important as in the US. Additionally, the EU budget does not possess any features to stabilize cyclical trends and asymmetric shocks. It fulfills only partly, via cohesion policy, redistributive and allocation functions. The EU budget is relatively small, it represents ca. 1% of the gross national income (GNI) of the EU, is balanced (revenue must equal expenditure) and has no classical tax revenues[12].

The further flaw in the euro governance is the fact that member states do not have monetary or fiscal means to offset fluctuation in economic activity. They cannot monetize their debts or ease monetary conditions by interest rate cuts or some form of quantitative easing like countries possessing their own currencies. According to De Grauwe members of a monetary union have difficulties to use automatic budget stabilizers. An economic downturn leads to increase of government budget deficits what results in loss of market's confidence that the government will be able to service its future debt. This triggers liquidity and solvency crisis, and forces government to implement an austerity program in midst of recession[13]. Fiscal transfers could attenuate budgetary stress by shifting the burden to other government levels or other members of the union. De Grauwe accentuates that a permanent crisis resolution mechanism that could form a basis of an insurance mechanism is crucial. A monetary union will not be politically sustainable if a member country hit by an asymmetric shock cannot count on financial aid from other members[14]. If there lacks a central fiscal authority and there is no financial firewall, an asymmetric shock in one country may easily contagion other member countries, potentially evoke a more general crisis of confidence and finally destabilize the whole union. Before the outbreak of the crisis in the eurozone there was no permanent crisis-resolution mechanism which would safeguard against imbalances in single countries and support those that need financial assistance to prevent from a contagion effect.

It should be also stressed out that the creation of the eurozone was more a political decision rather than a carefully considered economic project. The concept of a monetary union was always an element of the integration process and the ultimate goal of it. In fact geopolitics and the German unification as well as aspirations of the French president Francois Mitterand and the German chancellor Helmut Kohl to accomplish the full European unity accelerated its creation. The institutional framework of the EMU was mainly shaped by

[11] De Grauwe P., *Crisis in the eurozone and how to deal with it*, CEPS Policy Brief, No. 204, February 2010.
[12] Simovic H., The European Union Budget, [online, access: 6.04.2012], http://www.ijf.hr/eng/FTP/2005/3/simovic.pdf, p. 1-11.
[13] De Grauwe P., *The governance of the fragile Eurozone,* CEPS Working Document, No 346, May 2011, p.6-8.
[14] De Grauwe P., *What have we learnt about monetary integration since the Maasticht Treaty?,* Journal of Common Market Studies, Vol. 44, No.4, November 2006, p. 727-728.

political compromises and the political imperative to launch the euro by 1999 rather than economic theoretical rules

It also is worth emphasizing that the idea of creating a fiscal union in the European Union dates back to 1970, when the Werner Report set out a blueprint for establishment within 10 years a full economic and monetary union. It envisaged gradual increase of coordination of economic and fiscal policies, reducing fluctuations of exchange rates, finally, fixing currencies irrevocably and possibly introducing a single currency. The report recommended strengthened coordination of economic policies with interest rates and management of reserves decided at the central level as well as drawing up guidelines for national budgetary policies[15]. Unfortunately, due to the collapse of the Bretton Woods system and the first oil crisis the project must have been given up. The idea of an economic and monetary union was taken up again in mid-1980s after creation of the European single market. According to the Delors report the EMU should have been created gradually in 3 stages, moving from closer economic and monetary coordination with binding constraint on national budgets to a single currency with an independent European Central Bank. Although the OCA theory, the Werner and Delors reports directly indicated that the EMU should have been complemented by the economic union, political reality, unwillingness of the member states to transfer too many competences to the central level as well as the set timeframe made this goal unattainable. At that time it was impossible to create a monetary union with a sizable central fiscal authority which would be able to counter regional asymmetric shocks or deploy large fiscal resources to rebuild confidence in private markets. Moreover, due to the economic divergences among the EU member states it was politically infeasible to impose firm fiscal criteria for the membership in the currency union. Although the Maastricht Treaty set two hard convergence criteria for the euro area membership-3% limit on general annual government deficit and 60% limit on general government debt, in reality these thresholds were not fix. They could have been exceeded if such a situation was exceptional and temporary, and if the ratio was sufficiently diminishing and approaching to the reference value at the satisfactory pace. Apart from this, it was often a political decision, whether a country could join the euro area or not. For example Italy and Belgium, despite having in 1998 debt levels over 60% (Italy-114,9% and Belgium-117,4%), entered the eurozone. All in all, the Stability and Growth Pact (SGP), intended to safeguard sound public finances in the eurozone and enforce budget discipline, turned out to be ineffective. Moreover, in 2005 due to the insistence of Germany and France its rules regarding the budget deficit limit were softened. The limit could have been breached due to the implementation of structural reforms with direct long-term cost-saving effects[16]. This reform enabled flexible, political interpretation of the SGP with limited reference to economic hard data[17]. What is more, hardly any of the member states respected the medium term objective to keep its budget close to the balance or in surplus, and financial sanctions were never imposed on countries persistently breaching the constraints. It is crucial to stress out that Ireland and Spain facing severe adjustment problems due to asset bubbles in housing and property markets had sound fiscal positions until 2010, what proves that procedures for fiscal discipline in the eurozone were ineffective and inadequate.

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[15] *Report to the Council and the Commission on the realization by stages of economic and monetary union in the Community*, Council-Commission of the European Communities, Luxembourg, 8.10.1970, p.9-14.

[16] *Presidency Conclusions*, No 7619/1/05, European Council Brussels, 23.03.2005, [online, access: 07.04.2012], http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/84335.pdf, p.30.

[17] Bergsten F., Kirkegaard J., *The coming resolution of the European Crisis*,Policy Brief No PB12-1, Peterson Institute for International Economics, [online, access: 07.04.2012], http://piie.com/publications/pb/pb12-1.pdf, p. 2-4.

3. EMERGING RESOLUTION OF THE DEBT CRISIS-EVALUATION OF THE REFORMS

The crisis clearly showed that the eurozone' governance framework is flawed and does not provide any mechanisms to reduce its negative spillovers. The stabilization mechanism as well as surveillance over macroeconomic imbalances was lacking, not to mention the fact that the coordination of fiscal discipline turned out to be ineffective. Consequently, in order to restore confidence and guarantee the stability of the eurozone as the whole the EU authorities were forced to establish in the midst of the crisis rescue mechanisms and implement legislative changes. Responding to the imminent threat of the Greek insolvency, in May 2010 Greece received financial assistance in form of bilateral loans as well as rescue mechanisms-the European Financial Stability Facility (EFSF) and the European Financial Stabilization Mechanism (EFSM) were established ad hoc. Both rescue mechanisms are temporary, established for 3 years, and aimed at providing financial assistance to the eurozone's countries in financial distress. The receipt of the financial support is conditional to fiscal and economic measures to be implemented. The EFSM is based on guarantees from the EU budget (up to 60 bln euro), whereas EFSF is an intergovernmental body providing financial assistance up to 440 bln euro guaranteed by the eurozone's countries. Mechanisms are complemented by the IMF support amounted at 250 bln euro. EFSF and EFSM will be replaced by the permanent crisis mechanism-the European Stability Mechanism (ESM), which is to become operational in July 2012 subject to pending ratification. It will have an effective lending capacity of 500 bln euro. Assistance will be provided only if the financial stability of the euro area as a whole is endangered and it will be subject to strict economic and fiscal adjustment program[18]. The rescue mechanisms seem to be too complex, incomplete and consequently ineffective. Firstly, they differ in size, guarantee structure and governance. In EFSM the European Commission (EC) and the Council decide on the financial assistance by qualified majority voting, whereas, the EFSF and the future ESM are based on intergovernmental arrangements and treaties. Decisions regarding financial assistance, also in the future ESM, are made unanimously by the governments, and the EC plays advisory role. The unanimity principle may reduce the efficacy of instruments and defeats or delays assistance. Moreover, the framework is complex. The decision to grant financial aid is made by different institutions than those responsible for disbursement leaving a loophole between assistance and control. There are also fears that guarantees provided by the ESM will be not enough to avert the risk of contagion in the euro area.

The cornerstone in the economic governance reinforcement was the implementation of the "six pack" legislative package, which entered into force in December 2011. Four proposals deal with strengthening fiscal discipline, while two are aimed at detecting and eliminating emerging macroeconomic imbalances. The main new element is introduction of the macroeconomic surveillance framework aimed at preventing and correcting macroeconomic and competitiveness imbalances. This new surveillance mechanism is based on an alert system, which uses a scoreboard of indicators, in-depth reviews of economic developments and the Excessive Imbalance Procedure (EID). EID may be initiated if a member state is in a situation of severe imbalances threatening the functioning of the eurozone. The most important changes in the fiscal governance are introduction of an expenditure benchmark in the preventive arm of the SGP and a numerical benchmark for assessment of the debt criterion in the corrective arm of the SGP; implementation of new and more gradual financial sanctions, which will be imposed at an earlier stage of surveillance,

[18] European Commission, [online, access: 15.04.2012], http://ec.europa.eu/economy_finance/economic_governance/index_en.htm,

and limiting their discretionary character; expanded use of the reverse qualified majority voting and setting minimum requirements for national budgetary frameworks[19].

The proposed governance framework is a big step forward, which should strengthen the macroeconomic management in the eurozone. The new sanctions under the SGP are more automatic, coherent and comprehensive. Also taking into account the debt criterion is a long overdue reform. However, there are also some reservations regarding the effectiveness of the six pack. Firstly, the new framework still leaves a room for discretion for the Commission and Council while executing surveillance and enforcing compliance. Financial sanctions under the EDP or EIP can be reduced or cancelled in case of exceptional economic circumstances. Moreover, non-compliance with the deficit and debt criteria will not necessarily lead to the launch of the excessive deficit procedure, because also other factors are to be considered.

The further reform of the economic governance was introduction in the first half of 2011 of the European Semester, an ex-ante mechanism for assessment of planned fiscal and structural policies. The European Semester should enhance coordination of economic and fiscal policy planning and contribute to their greater convergence. It introduced central, EU-level discussions on fiscal and macroeconomic policies and structural reforms before drawing up national budgets and submitting reforms to the debate in national parliaments. Every year member states are expected to submit for evaluation to the EC their national budgetary plans and plans concerning economic policies in order to identify possible weaknesses before their implementation[20]. The Euro Plus Pact aiming at fostering competitiveness and employment and stronger economic coordination was integrated into the European semester. It focuses on areas of national competences. Every year member states agree on concrete common objectives and commitments, which should be achieved within 12 months with own national policy-mix subject to assessment of the Commission in the context of the European Semester[21]. It is criticized that the member states tend to present in their national programs not very innovative, ambitious objectives, but rather vague and unspecific measures. More precise, operational and measureable commitments are needed. The further drawback is lack of coercion to implement reforms. Moreover, Commission's recommendations should be more concrete and country-specific.

In the beginning of March 25 EU countries signed the fiscal compact, which introduces a new fiscal rule requiring national budgets to be in balance or in surplus. It is a distinct step towards a fiscal union. The annual structural deficit cannot exceed 0,5% of the GDP at market prices and the new budget rule must be incorporated into national legal systems at constitutional or equivalent level[22]. Nevertheless, there are some doubts, whether the fiscal compact is able to prevent governments from overspending and whether the fiscal discipline measured by public deficit is really a proper indicator to avoid debt crises. But it seems that greater fiscal discipline is needed, and strong emphasis on fiscal discipline is justified. The unsustainable levels of public debt and public deficits hamper economic growth. However, the crisis proved that the sound public finance is not the only problem in the eurozone. The increasing economic divergence and disparities-loss of competitiveness in the EU's peripheral countries and in the same time its increase in the core eurozone countries and rising current

[19] *Monthly bulletin*, European Central Bank, Frankfurt/Main, March 2011, p.109.

[20] Reinforcing economic policy coordination, European Commission, COM(2010) 250 final, Brussels 12.05.2010, [online, access: 15.04.2012], http://ec.europa.eu/economy_finance/articles/euro/documents/2010-05-12-com(2010)250_final.pdf

[21] Conclusions of the Heads of State or Government of the Euro Area of 11 March 2011, Brussels, 11.03.2011, [online, acces: 15.04.2012], http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/119809.pdf, p. 5-12.

[22] *Treaty on stability, coordination and governance in the economic and monetary union* p. 10-16.

account deficits contributed to the economic crisis and left the EU's periphery with no economic growth prospects. Countries mostly hit by the crisis, unable to devaluate their currency, are forced to implement major structural reforms to increase their competitiveness. But austerity programs and public spending cuts exert negative impact on growth, what can prolong and deepen economic slowdown. Establishment of a fiscal union with interregional transfer systems and sizeable budget would mitigate negative spillovers of asymmetric shocks.

4. LESSONS FOR THE EUROZONE

It must be emphasized that fiscal unions usually evolve together with political unions which form a basis for fiscal cooperation. Federalism is not a static pattern with a precisely defined division of competences between particular government levels, but rather a continuous process in which separate political entities enter in common arrangements, adopt joint policies and find out solutions for occurring problems. A federation is an evolving entity whose structure and framework are changing due to economic and political events. Important factor for survival of a federation is its units' commitment to values of federalism, ability to compromise, cooperate and adapt. Changes in the institutional framework, tightening of collaboration among member states and assignment of more competences to central level usually result from exceptional events such as economic downturns[23]. Ten years after the euro's introduction the first serious economic crisis arrived. It is expected to have far reaching implications on the institutional framework and economic governance. Such an opportunity should be used to complete the euro's project, so that Europe emerges from the current turmoil with good economic prospects. The economic governance largely based on the SGP did nothing to stimulate the economic growth across the region, and the assumption that the biggest threat to the eurozone's stability is lack of fiscal discipline was wrong. It is only one of the prerequisites of the stability in a monetary union.

Although nowadays the eurozone is far from fiscal centralization, there are some gradual changes in response to the crisis towards strengthening of fiscal rules and stronger economic governance. The most important question is how to combine and reconcile aims to strengthen economic governance, fiscal discipline and implement fiscal consolidation with attempts to foster economic growth and improve competitiveness in the eurozone. To overcome the crisis reforms should go beyond the measures to address the current crisis, and also focus on the institutional reform and its continuation in the longer-term. Times of crises give incentives to implement tough measures and reforms needed to get back on a sustainable path. However, in a current discussion on the crisis and fiscal union one should distinguish between the crisis resolution methods aimed at finding a fast, short term way out of the crisis and long term solutions aimed at ensuring enduring stability in normal times. Enhancing the fiscal framework and deeper fiscal union are becoming increasingly persuasive and seem to be a necessary step of the integration process in Europe. Nevertheless, it will be difficult to convince all member states to assign more competences to the central level due to some constitutional and political impediments. To resolve problems of power appointment, risk and burden sharing and find solutions for constitutional objections compromise is needed. Creating a sufficient degree of a fiscal union in the eurozone is an economic, institutional and political challenge. It will be difficult to persuade citizens of the eurozone's countries that the common interest should be a priority, because it also lays in their interest.

Although for the foreseeable future the majority of the government spending and taxation will stay at the decentralized level due to the political legitimacy, it is necessary to

[23] Bordo M., Markiewicz A., Jonung L., *A fiscal union for the euro:some lessons from the history*, NBER Working Paper 17380, September 2011, p. 7-13.

deepen the euro area fiscal integration and take concrete steps on a reasonable timetable to increase the fiscal capacity of central government and pave the way for the transfer mechanism to be used in times of distress. The main goal should be to reform the eurozone's institutional framework and overhaul economies. The fiscal compact must be treated as the beginning of necessary institutional reforms, however, further reforms towards deepening of the euro area fiscal integration must be maintained.

List of abbreviations

EC- the European Commission
ECB- European Central Bank
EDP-excessive deficit procedure
EFSF- European Financial Stability Facility
EFSM- European Financial Stabilization Mechanism
EIP- Excessive Imbalance Procedure
EMU-the European Monetary Union
ESM- European Stability Mechanism
EU- the European Union
GDP-gross domestic product
IMF- International Monetary Fund
OCA- optimal currency area
SGP- the Stability and Growth Pact

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22. *Treaty on stability, coordination and governance in the economic and monetary union*, p. 10-16