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Searching for a Euro Reform Consensus: The perspective from Central and Eastern Europe

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Executive Summary

This study explores the interests and positions of Central and Eastern European (CEE) Member States in the European Monetary Union (EMU) reform debate. Its starting point is the observation that this debate is largely dominated by contributions from the larger Western European countries.

Western European debate strongly influenced by a French-German dialogue

Section 2 gives a brief overview on the ongoing reform discourse that, in Western Europe, is particularly influenced by a French-German dialogue. In the literature, the current reform controversies are seen to be driven both by a "battle of ideas", i.e., different traditions in economic thinking, and a "battle of interests", i.e., different national interests. Six questions are particularly prominent in these discussions: First, to which extent should the European Union increase its provision of "European public goods" and expand the central budget? Second, does the common currency need new fiscal instruments that provide stabilization in the presence of asymmetric shocks? Third, which institution can best serve as the lender of last resort and insure the euro area against liquidity crises, and under which conditions? Fourth, should there be more effective rules and incentives for structural reforms and fiscal prudence, and how could they be implemented? Fifth, does the EMU need more fiscal solidarity with an expansion of transfers from richer to poorer Member States? And finally, should there be an insolvency procedure for euro area countries with a debt overhang and how could this procedure be designed? A comparison of typical French and German reform positions indicates that both countries differ systematically in their attitudes to euro area reform. French templates typically stress the need for more effective macroeconomic stabilization and are supportive of more European public goods. German authors typically emphasize more effective rules and the need of an insolvency procedure.

Central and Eastern European positions and data

This assessment of the Western European debate provides the backdrop against which we screen CEE interests and positions in section 3. We summarize existing evidence from analyses of policy documents, surveys, and media coverage. One finding from studies on governmental positions during the euro area debt crisis concludes that CEE Member States have heterogeneous positions. However, they more frequently align with a Northern coalition stressing fiscal discipline over fiscal transfers against Southern countries that advocate more fiscal solidarity. Overall, the enthusiasm for more European coordination is lower in the east compared to the west. Evidence from the Eurobarometer opinion polls proves that the euro has lost considerable support in the countries outside of the euro area. Only Romania still has a clear popular majority in favor of a euro introduction. An extensive screening of fiscal and economic data provides important insights on the self-interest of CEE countries from the "battle of interests" viewpoint: The process of economic convergence has been remarkably stable over the past decade. The most

advanced CEE countries are about to overtake several old EU countries in GDP per capita or have already done so. Although the region is catching up quickly, the eastern EU Member States still benefit substantially from the EU budget through a high net beneficiary status in cohesion and agricultural policies. Macroeconomic volatility in CEE countries has been high, particularly in the small open Baltic economies that saw the most severe recessions among EU economies in 2009. With the exceptions of Slovenia, Croatia and Hungary, government debt levels are at much lower levels compared to Western Europe. Compliance with European fiscal rules has been relatively high. A pervasive feature for all CEE locations are low effective corporate tax rates.

Expert survey on euro and EU reform preferences with more than 1,800 respondents

Section 4 introduces the study's unique empirical contribution, a large survey among economic expert communities in all CEE countries as well as in France, Germany and Italy as old Member State benchmarks. The survey was conducted between February and April 2019 with more than 1,800 respondents. It covers questions on general economic policy orientation (demand versus supply side views), support for the euro, and attitudes towards new possible competencies for the EU, as well as opinions regarding EMU reform issues as listed above.

Survey indicates that CEE experts agree with their German colleagues on some EMU issues

Section 5 presents the survey results. There is support for the euro both in euro and non-euro countries, but economists outside the euro area are less enthusiastic about the benefits of the euro. CEE expert communities in Slovakia, Poland, and the Czech Republic are more supply-side oriented than elsewhere. CEE countries are significantly less supportive than France and Italy on more EU competencies in taxation (through qualified majority instead of unanimity). On redistribution, expert preferences obviously relate to their countries' economic development. Economists from poorer countries are more in favor of cross-country redistribution than those from more advanced economies. On immigration and defense, CEE respondents are more reluctant to grant new EU competencies than those from France, Germany and Italy. CEE expert communities are receptive towards new stabilization tools like a European unemployment insurance scheme. On Eurobonds, experts from CEE countries are often undecided, only poorer non-euro countries (Romania, Bulgaria, and Croatia) show a clear support, albeit not at the Italian level. Survey participants from the richer CEE countries line up with German experts in their resistance to a relaxation of the Stability and Growth Pact. On the debate about sovereign debt restructuring mechanisms, the divide is clearly between Germany and CEE on the one hand (very supportive), and France and Italy on the other hand (only mildly supportive). Finally, eastern economists back both the EDIS and the ECB's asset purchases.

EMU reforms decide on further enlargement of euro area – package deals most promising

Section 6 draws conclusions from all these empirical findings for EMU reform prospects. It stresses the endogeneity of further euro area enlargement given the fading support for the euro in the CEE countries outside of the common currency. Those countries are less likely to introduce the euro if they perceive euro membership to entail more costs than benefits. Hence, the upcoming reform decisions are not just important for the functioning of the euro zone with its current membership of 19 EU Member States. In addition, the direction of the reforms could be decisive on if there can be a further euro enlargement to the east. Given the advancing economic convergence and the favorable fiscal situation in numerous countries, an unbalanced reform with the sole priority on fiscal solidarity will hardly be met with large applause in the CEE region. Package deals that balance guarantees against bail-outs with more stabilization are likely to increase the appeal of the common currency. Reform templates that are attractive from the eastern perspective should include at least the following three elements: first, the establishment of a credible insolvency procedure for euro countries that suffer from a debt overhang; second, a strengthening of fiscal rules through more independent surveillance, but without sanctions that threaten the loss of cohesion funds; and third, new stabilization tools that reflect the experience of high GDP and unemployment volatility in several CEE countries, but with a design that excludes permanent transfers. Any change in European rules that could curtail national autonomy in tax policy would clearly further reduce the common currency's attraction from the perspective of CEE Member States.

1 Introduction

A lot has been achieved to improve the institutional set-up of the euro area over the last decade. Fiscal and macroeconomic governance rules have been refined and the rules of the Stability and Growth Pact (SGP) have been strengthened. The European Stability Mechanism (ESM) has been established as a source of liquidity for countries that lose capital market access and are ready to accept its conditions. On top of that, the European Central Bank (ECB) has effectively stepped into the role of a lender of last resort through the Outright Monetary Transaction (OMT) program. So far, OMT has never been activated but its mere existence has contributed to restoring trust in the markets for sovereign euro bonds. A banking union has been set up with a European supervision of large banks under the responsibility of the ECB and the establishment of a European Banking Resolution Mechanism.

In spite of this list of achievements, the political and academic reform debate remains intense and the future of the Eurozone is unclear. It is seen that there is a large consensus that the Economic and Monetary Union (EMU) is still a "half-built house" (Bergsten 2012). Much less consensus exists on the priorities for the direction of additional reforms. Ideas for the next steps are diverse; they comprise of various suggestions for new stabilization tools that shield EMU members against asymmetric shocks, more refined and credible fiscal rules, suggestions for new sovereign financing tools, and blueprints for sovereign insolvency procedures.

One striking feature of the ongoing debate is that it is characterized prominently by contributions from larger euro countries from Western Europe. Politicians (and economists) of countries like France, Germany, and Italy are highly active and influential in this debate. By contrast, EU Member States from Central and Eastern Europe (CEE) seem to be somewhat less visible in the debate. This comes with substantial risks for the future potential of monetary integration in Europe. If an emerging Western European consensus is not shared by CEE countries, this could cement a permanent euro outsider role for important EU Member States like Poland, Hungary or the Czech Republic. If euro reforms go into a direction that is against CEE preferences, it will become less likely that these countries would join the common currency area in the future.

This study draws attention to the euro reform perspective of EU Member States from Central and Eastern Europe. We use this to make two contributions. The first contribution is a careful positioning of CEE countries in terms of key economic variables that allows us to draw conclusions on these countries' particular needs and preferences with respect to EMU reforms. Contribution two is a large self-conducted survey among more than 1,800 economists on their views on desirable EMU reforms. Using this, we sketch the positioning of these countries and derive conclusions for euro reform packages that may find support in both the west and east.

In the next section 2, we briefly detail the main issues in the current reform debate for the euro area. We present some indicators on which countries dominate the current debate. Section 3 comprehensively screens the fiscal and economic situation of CEE countries to assess these countries' specific needs and preferences for the further evolution of euro area institutions. Section 4 describes our survey and section 5 presents its results. The concluding section 6 develops a reform perspective that might possibly provide a European consensus.

2 The current (Western European) EMU reform debate

2.1 The "battle of ideas" versus the "battle of interests"

Our starting point is a brief assessment of the ongoing Western European EMU reform debate. We summarize which topics dominate the debate and where the economists involved in the debate come from.

Economists' national origin and their EMU reform preference may be correlated due to two major reasons: national self-interests and national traditions of economic policy. Economic experts, in their reasoning on promising euro area innovations, may not be completely free from their countries' self-interest or from the specific schools of thought that dominate the academic discourse in a national scientific community. In this vein, Pisani-Ferry (2018) explains the divergence of economists' positions between the European North and South as driven by both a "battle of interests" and a "battle of ideas".

The "battle of interests" perspective assumes that there is a correlation between a country's national benefit and the opinions of this country's experts: Different reform proposals have heterogeneous effects on Member States depending on their diverging economic conditions. Calls for a harsh fiscal austerity have a different appeal depending on the level of the national public debt. Fiscal solidarity will be more attractive to poorer or less stable countries than rich and resilient economies. Therefore, variation in levels of debt, cyclical volatility, labor market flexibility, and so on, could impact positions.

The "battle of ideas" perspective rather looks at national traditions in the history of economic thought: Independent from national self-interests, those different traditions can shape EMU views in the national communities of researchers. The "battle of ideas" has reached substantial attention for explaining the differences in preferences between Germany and France (e.g., Brunnermeier et al. 2016, Bénassy-Quéré et al. 2018, Pisany-Ferry 2018). On the one hand, "ordoliberalism" is said to influence German economists' thinking and their emphasis on the importance of rules, liability, solvency, austerity and market discipline. On the other hand, French economists often show a high confidence in the merits of discretionary government policy, and support solidarity, demand stimulus, and risk sharing mechanisms.

At the same time, the example of France and Germany indicates that ideas and interests may often go hand in hand: Compared to France, Germany has lower public debt, more flexible labor markets, and a better growth performance over the past decade. Hence, Germany has a stronger anxiety about new solidarity mechanisms that could lead to transfers from high growth and low debt countries to economies with low growth and high debt.

The so-called "7+7 report" by seven French and seven German economists has been an important milestone in the search for consensus between the French and German sides. The report proposed measures to combine risk sharing and market discipline through, for example, a debt restructuring mechanism as a last resort in combination with new insurance mechanisms against asymmetric shocks (Bénassy-Quéré et al. 2018).

Further insights on EU and EMU preferences for Germany, France, and Italy are provided by Blesse et al. (2019), who conduct a survey among the members of the three countries' national parliaments. Their results point to a rather isolated position for Germany, as they find a larger consensus between Italian and French politicians, while Germans more often disagree with their French and Italian colleagues. De Ville and Berckvens (2015) conduct a survey on EMU reforms among euro area academic experts. They also identify an outsider-role of German economists, who are skeptical of any proposal moving the EMU in the direction of a fiscal union built on more fiscal stabilization mechanisms and mutual fiscal guarantees.

Overall, reflections and data on EMU positions have advanced our knowledge on national specificities and the degree of a Western European consensus or dissent. However, the existing approaches have largely neglected a more pan-European perspective and the positioning of the CEE countries in particular.

2.2 Key issues in the EMU reform debate

As a next step, for a systematic analysis of EMU reform positions in different national debates, we need a more precise structure on the main issues in the debate. We suggest to describe EMU reform proposals through their positions across six different dimensions (Asatryan et al. 2018 develop and apply this classification to the debate on a European Finance Minister). Some proposals may concentrate on just a single or a few of these dimensions, others - more integral proposals - cover all dimensions. These dimensions are the following:

Efficient level of European public goods: This dimension relates to allocative efficiency in public good provision. It is based on the fiscal federalism rationale that different types of public goods should be assigned to federal layers according to certain principles. For example, policies with significant cross-border spillovers or European economies of scale are candidates for the European level. EU and EMU reform proposals cover this dimension if they reflect explicitly on more substantial tasks at the European level financed by the EU budget (for example for defense or migration).

Coping with asymmetric shocks: The idea that EMU institutions should provide insurance against asymmetric shocks corresponds to the classical insights of the Theory of Optimum Currency Areas (TOCA). If countries give up an adjustable exchange rate, other adjustment instruments like fiscal insurance schemes could provide compensation. Specific examples for such schemes from the current debate are a euro area budget or a European unemployment insurance system.

Lender of last resort (sovereign liquidity crises): One lesson learned since 2010 is that there can be panic-driven vicious cycles on government bond markets, which threaten to push countries into illiquidity even if these countries are not insolvent. Contagion and destructive loops from increasing risk premia over financial instabilities as well as the downturn of the real economy but also deteriorating public finances can have devastating consequences. In 2012, the ECB stepped in as lender of last resort. The ESM is another provider of emergency liquidity. EMU reform proposals often develop ideas about new or adapted mechanisms for liquidity support.

Incentivization of structural reforms, sustainable budgetary policy, and fiscal sustainability: From the beginning, the Maastricht model has been based on fiscal rules and coordination tools, which should incentivize euro governments to stay on the path of fiscal prudence and to tackle the structural problems their countries may face. The increasing divergence of euro member countries regarding their fiscal and economic situation signals that incentives have so far not been sufficient. EMU blueprints may therefore stress the need for more guidance on national policies.

Transfers from rich to poor: More European integration could mean establishing a federal union with fiscal equalization among Member States. To some extent, such a mechanism is already in place through the cohesion policy financed from the European budget. Conceptually, it is crucial to distinguish between stabilization/insurance against asymmetric shocks (without a permanent transfer element) on the one hand, and permanent equalizing transfer payments. In practice, the borders between both approaches are more blurred as a system set up as insurance ex ante could also produce systematic transfers ex post.

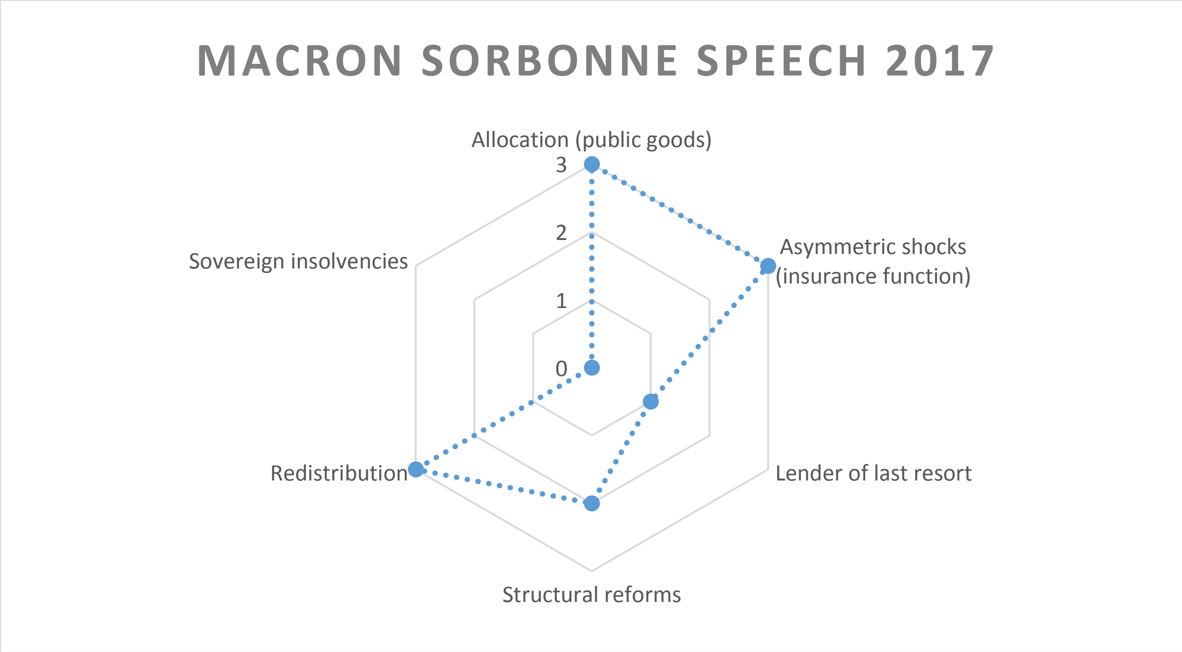
Procedures for sovereign insolvencies: A debt crisis may not just reflect a temporary liquidity problem that can be solved through temporary liquidity support. Instead, there can be cases of outright insolvency, i.e., a public debt overhang in excess of the taxing and repayment capacity of a country. If the debt overhang is not addressed through transfers from European institutions or other Member States, the only remaining solution is debt restructuring. A sovereign insolvency procedure can provide mechanisms and rules to manage the restructuring in an orderly way. The (non-)existence of a credible debt restructuring option also has incentive effects for borrowers and creditors. A credible insolvency procedure for sovereigns will make creditors more cautious in providing capital to countries with a critical debt level. This will make it more expensive for debtors to issue new debt. Hence, the EMU's way to deal with insolvency implies a decision on the intensity of market discipline.

The reform templates in the Western European debate sketched above differ substantially on their coverage of these dimensions. For example, “French” contributions often emphasize the need for new capacities that cope with asymmetric shocks and liquidity support, while typical "German" proposals stress the desirability of more effective budgetary and structural reform incentives in combination with more market discipline and debt restructuring mechanisms.

To give an example of these contrasting reform preferences, we compare the speech by French President Emmanuel Macron delivered at Sorbonne University in September 2017 (Macron 2017) to a speech by the German President of the Bundesbank, Jens Weidmann, given at the Duitsland Instituut Amsterdam in April 2014 (Weidmann 2014). What stands out is the emphasis of the concept of "solidarity" in the French speech vs. the prominence of the "principle of personal responsibility" in the German speech. Macron emphasizes the importance of cooperation in many areas, i.e., the introduction of many European public goods in the areas of defense, immigration, education, agriculture and development aid, whereas Weidmann does not cover the public good dimensions at all. Macron wants to achieve more stability through national reforms, e.g., in the labor market, but also through a European central budget supervised by a European minister. Weidmann talks about many national structural reforms to increase competition, efficiency and growth. He particularly stresses rules by the SGP and Fiscal Compact to strengthen the responsibility of Member States. These rules should be extended, according to Weidmann, and a debt restructuring mechanism should help strengthening national responsibility. Moreover, Weidmann puts a lot of emphasis on the completion of the banking union. Macron only mentions rules in the context of the European Cohesion Fund. He proposes to cut access to this fund in case Member States do not harmonize the corporate tax base.

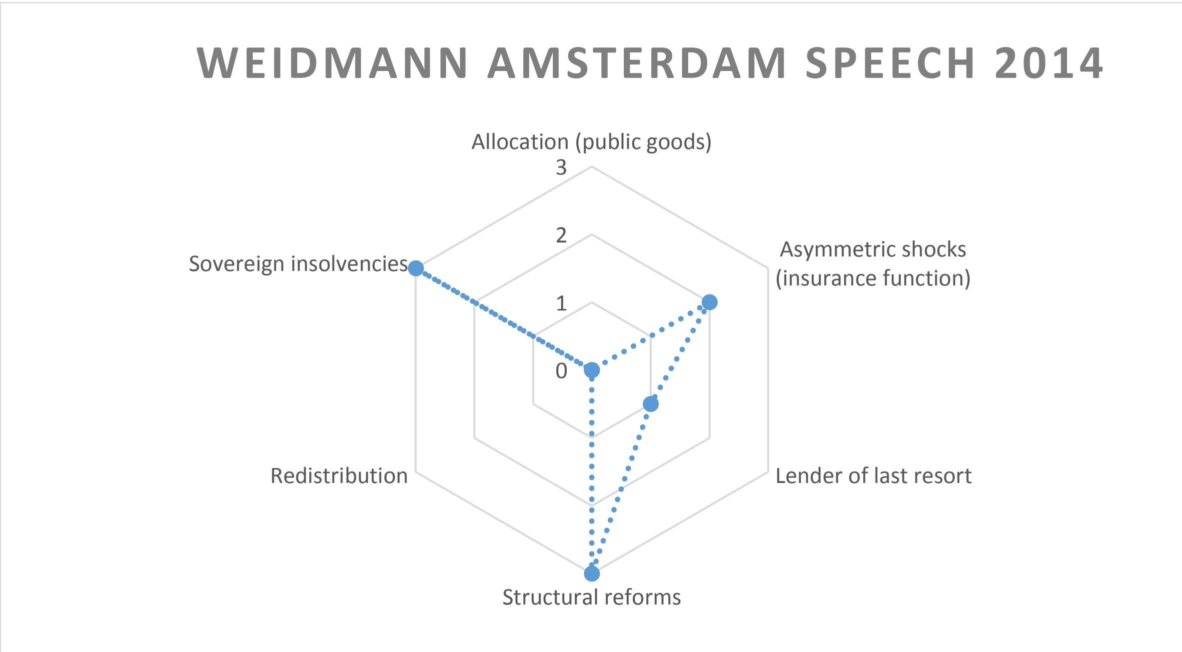
For illustrative purposes, we depict these speeches in spider webs, where each of our dimensions of reform proposals represent knots. For each dimension, we give a score from 0 (no mention of the dimension) to 3 (high prominence in the speech). Due to Macron's stress on solidarity, public goods, and a central budget, the scores reach the maximum in the dimensions allocation, redistribution, and asymmetric shocks. The possibility of sovereign insolvencies is not mentioned. Weidmann covers all dimensions except redistribution and public goods. Macron's speech is depicted in Figure 1 and Weidmann's speech is in Figure 2.

Figure 1: Spider web Macron Sorbonne speech



Note: Own depiction.

Figure 2: Spider web Weidmann Amsterdam speech

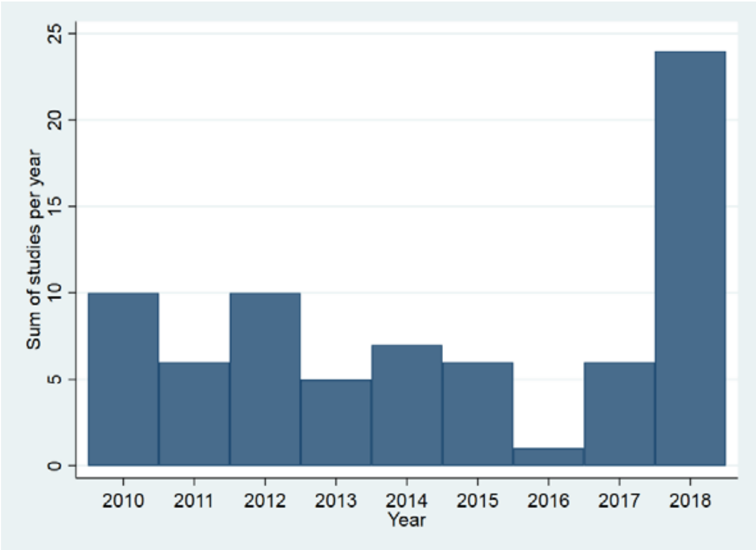


Note: Own depiction.

We now turn to a more quantitative description of reform proposals to investigate which nationalities are involved in the debate and whether some countries are underrepresented. Our search algorithm on Google Scholar led to 1,700 results.[1] It was conducted on March 13 and 14 of 2019 in Mannheim. We collected all relevant results until results page 50, which amounts to the 500 most relevant articles. The final sample of reform proposals consists of 75 studies.[2]

Figure 3 depicts the years in which these studies were published. A large proportion was published in 2018. In most of the other years, the number of studies is between five and ten. This can either be due to the relevance order according to Google, or it could reflect an increase in fundamental reflections on EMU reform after the end of the acute phase of the euro area debt crisis and the reflection process kicked-off by the European Commission in 2017 (European Commission 2017b).

Figure 3: Sum of studies per year



Note: Own depiction. Source: Google Scholar search.

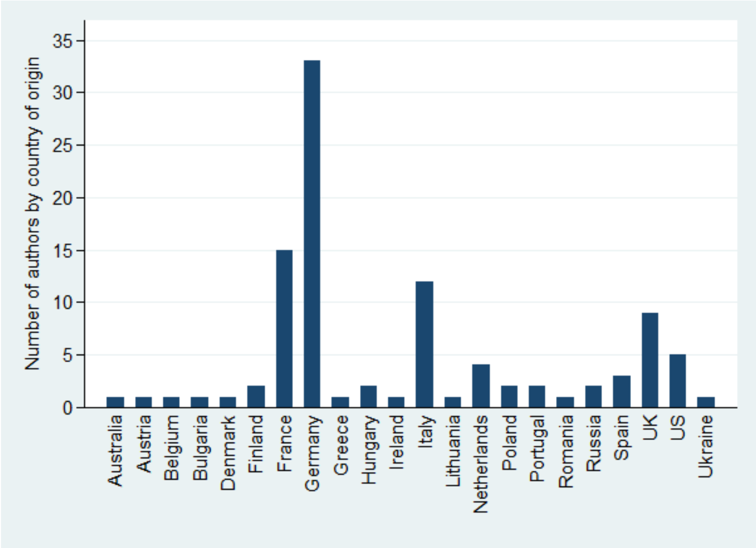
In the next step in Figure 4, we plot the authors' nationalities (their countries of origin). If authors are involved in several studies, they are only counted once. In total, there are 101 different authors. We find a large German-French dominance, with 33 German and 15 French authors. Italy follows with twelve authors, the UK is in fourth place with nine authors and four authors are from the Netherlands. Apart from the US with five authors, all other countries depicted in the graph do not have more than three authors. From the CEE countries, we count two authors from Hungary

[1] 1. Open the Google Scholar website and switch the search into English. 2. Type in the search field: „eurozone reform“ OR „euro area reform“ OR „EMU reform“. 3. Hit "search" 4. Order the results according to relevance. 5. Choose publication years 2010 to 2018 in order to restrict the proposals to mostly after-crisis years. 6. Exclude patents.

[2] We excluded books (if a specific chapter was indicated, we kept it), speeches, newspaper articles, proposals by authors having mainly a political position at the time of the publication, proposals focusing on the legal aspects of reforms and studies that focused on one particular country.

and Poland each, and one author from Bulgaria, Lithuania, Ukraine, and Romania each. This means the UK has more authors than the CEE countries altogether, while the CEE countries collectively make up less than eight percent of the authors on EMU reform proposals.

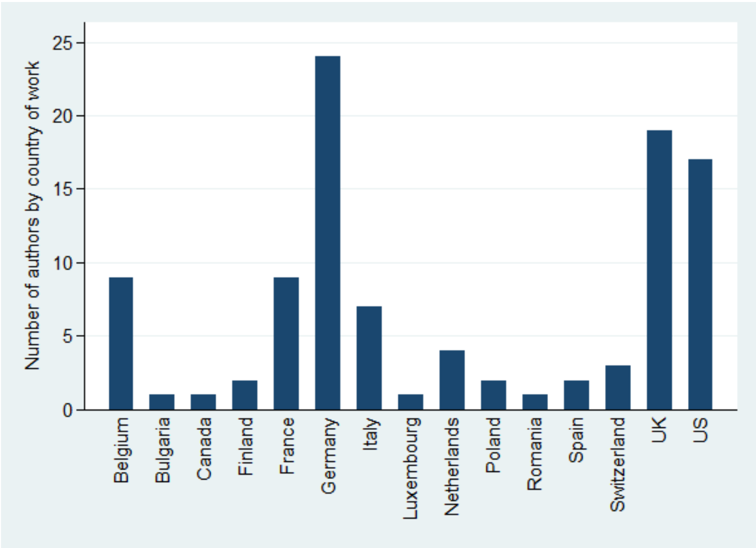
Figure 4: Number of authors by nationality



Note: Own depiction. Source: Google Scholar search.

It is worthwhile to also look at the country of work instead of focusing on the country of origin. Mobile researchers might update their preferences according to their country of residence. Interestingly, the representation of CEE countries actually decreases further with this perspective, as shown in Figure 5: Hungary, Ukraine and Lithuania do not appear anymore in the sample. The reason is that authors with origin from the East work in the UK, US and Belgium.

Figure 5: Number of authors by place of work



Note: Own depiction. Source: Google Scholar search.

Overall, these counts confirm the impression of a low involvement of CEE countries in the academic EMU reform debate.

3 Central and Eastern European positions and interests

3.1 Existing evidence

The previous section showed that new EU Member States are not very visible in the (academic) debate on the euro area reform debate, at least in comparison to other core members of the Eurozone, such as Germany, France, and Italy.[3] Before we describe the new evidence from our self-conducted survey in the next section, we briefly take stock of the existing insights from the literature and databases.

For instance, Scully et al. (2012) use a survey of the Members of the European Parliament to show that representatives from new Member States are more conservative but are as much in favor of European integration as other MPs. A recent "EMU Positions" dataset from Wasserfallen et al. (2019) describes Member States' positions in negotiations on policies for the euro area between 2010 and 2015 during the euro area debt crisis. Positions are identified on the basis of textual analysis of official documents and media reports. By analyzing this dataset, Lehner and Wasserfallen (2019) find that these negotiations have been dominated by a one-dimensional conflict between Southern countries advocating for more fiscal transfers and Northern countries prioritizing fiscal discipline. Central and Eastern European Member States, both euro and non-euro countries, often have heterogeneous positions but more frequently align with the Northern coalition stressing fiscal discipline over fiscal transfers. Since the EMU Position dataset refers to past crisis measures, it is limited in information on EMU reform preferences for the future institutional set-up.

Insights from policy position papers, press reports, and political analysts also allow us to sketch some more specific positioning on current issues: Some eastern countries are skeptical to a common euro area budget as recently suggested by France and Germany, and rather stress fiscal discipline and the role of fiscal rules in sustaining public finances (Euractiv 2018). The Baltic countries are part of the "Hanseatic League" (together with Denmark, Finland, Sweden, Ireland, and the Netherlands) and strongly oppose ideas of (unconditional) fiscal transfers (Hanseatic League 2018). Hanse members argue in favor of more fiscal discipline while stressing the importance of structural reform. They are concerned about moral hazard (i.e., disincentives as the consequence of too generous financial support) and new EU competences beyond the status quo. Also Visegrad countries (Poland, Czech Republic, Slovakia and Hungary) are rather against a separate fiscal capacity for the euro area but for somewhat different reasons (Visegrad.info 2018). For instance, for Poland and Hungary, analysts point to possible fears that a euro area

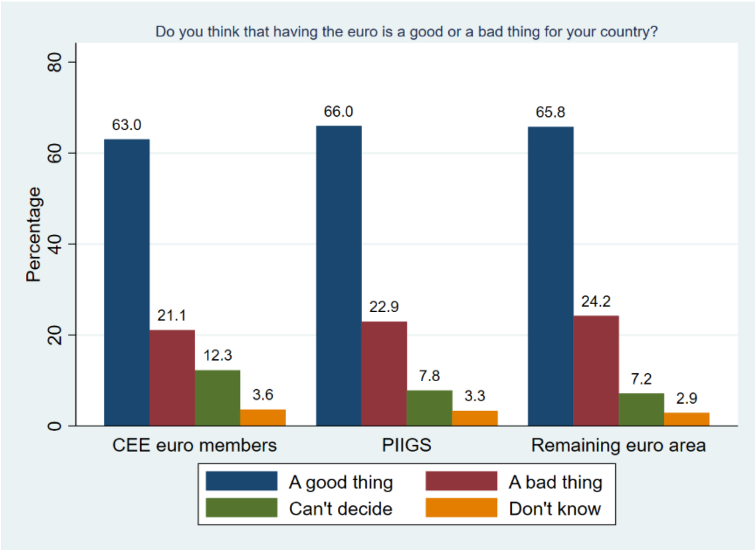
[3] Reasons for this may be manifold: euro member countries relatively small, strong Franco-German leadership in European reform debate and narratives, etc.

budget could mean a decrease in existing funds aimed at lowering regional differences across the EU, an argument which weighs heavily given the large EU transfers these countries receive and the tighter EU budget as a consequence of Brexit. While Slovakia does not exclude a separate fiscal capacity per se, it stresses fiscal discipline as a condition for any deepening of the euro area (Visegrad.info 2018). Collectivization of debt is also rejected by Hanse members as well as by Hungary and Poland, while Slovakia is open to some form of risk sharing (Visegrad.info 2018). Unlike the members of the Hanseatic League or the Visegrad coalition, other CEE countries (Croatia, Romania, Bulgaria and Slovenia) are not significantly associated with regional coalitions or interest groups regarding the European reform process. These countries do not constitute a consistent interest group regarding euro area reform. In fact, their national interests differ with respect to further reforms on the euro area. For instance, Slovenia has among the highest GDP per capita levels of the CEEs and was the first CEE country to join the euro area. Croatia, Romania, and Bulgaria are, by contrast, willing candidates to enter the euro area, but represent the lowest levels of GDP per capita as the newest members of the European Union (see section 3.2).

Further and more objective insights can be obtained from recent population polls of the Eurobarometer, albeit those survey questions are of a very general nature. Figure 6 indicates that a majority of residents from euro area members thinks of the euro as being economically beneficial for their own country. This is also true for new euro members from CEE countries as well as the PIIGS[4] group that has been particularly affected by the debt crisis. Across the euro area, a clear majority would prefer “more economic coordination” within the euro area (see Figure 7). This is especially true for PIIGS countries (71.9% of respondents demand more coordination), which continue to struggle with economic growth and sustained fiscal consolidations. Eastern euro area countries are, however, somewhat less enthusiastic about more coordination, but still support it with a narrow absolute majority (50.9%). Of course, “more economic coordination” is a highly imprecise term, which limits our insight from the Eurobarometer in this respect.

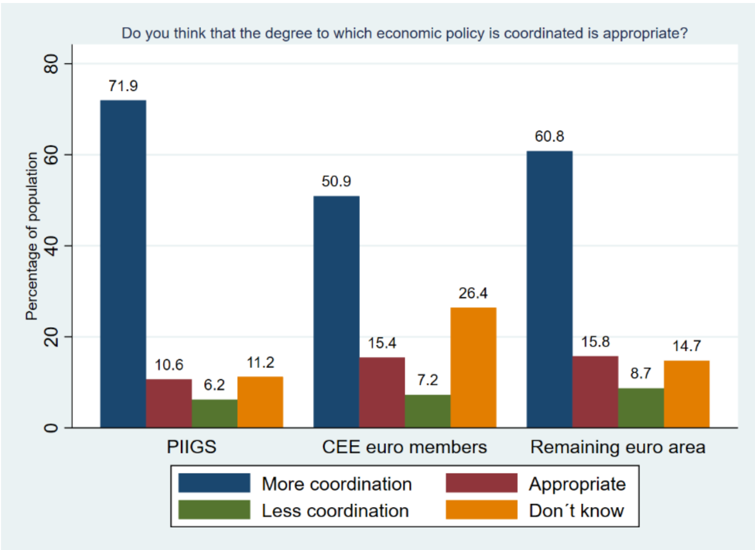
[4] Portugal, Ireland, Italy, Greece, Spain

Figure 6: Population survey on benefit of euro



Source: Question 1.1 of the Flash Eurobarometer 473, November 2018.

Figure 7: Population survey on appropriateness of economic policy coordination



Source: Question 8.1 of the Flash Eurobarometer 473, November 2018.

3.2 Interests and incentives of Eastern European countries

According to the “battle of interest” perspective, CEE positions should be heavily influenced by these countries’ economic and fiscal situation. Therefore, we briefly assess the current state and developments for the following aspects: euro area membership – state and prospect, the economic convergence process, the cyclical volatility and labor market situation, the fiscal situation, as well as the corporate tax competitiveness.

Euro area membership – state and prospect

So far the Baltic countries, Slovenia, and Slovakia have introduced the euro while the Czech Republic, Poland, Croatia, Bulgaria, Hungary, and Romania have not yet acceded to the common currency and, in the legal terminology, are "Member States with a derogation" (Art. 139 TFEU). Slovenia and Slovakia joined the euro area first in 2007 and 2009 respectively, while the Baltic countries followed after with Estonia (2011), Latvia (2014), and Lithuania (2015). In all of these CEE euro members, public support for the euro is significant and has grown since accession to the monetary union (Roth et al. 2016).

Although the introduction of the euro is an ultimate goal of EU membership and EU Member States with a derogation are obliged to join on meeting the convergence criteria[5], most eastern non-euro countries are currently not considering to join the EMU with the exception of Croatia, Romania, and Bulgaria (see Table 1). The Czech Republic, Poland, Hungary, and Romania still have free- or managed floating exchange rates. Reasons for not entering the euro area are quite heterogeneous, ranging from domestic reasons, like insufficient economic convergence over a lacking perceived attraction of euro memberships, to an unresolved institutional reform agenda (Backé and Dvorsky 2018).

Bulgaria and Croatia intend to enter the European Exchange Rate Mechanism (ERM II) in July 2019 and June 2020 respectively, which would put the exchange rates of their national currencies in a narrowly defined bandwidth to the euro and further their integration to the euro area. Bulgaria already pegs its national currency to the euro and thus has already fully given up an independent monetary policy. Romania meanwhile has prepared a draft plan to adopt the ERM II, which has not officially been confirmed yet, though the country hopes to adopt the euro in 2024 (Euractiv, 2019).

However, in most CEE countries outside the euro, the democratic support for introducing the euro is weakening (see Figure 8). In fact, net support for the euro in these countries has declined significantly. In all CEE countries outside of the euro area, a majority of citizens supported the common currency in the years preceding the financial and euro area debt crises. Since then, majorities in Bulgaria, Czech Republic, Poland, and Croatia have turned against the common currency. The opposition against the euro in Croatia is very slim with net support rates of about -2. Only for Romania and Hungary, in spite of a fall of about 31 and 36 percentage points since November 2009, majorities in favor of the euro introduction still existed in 2018 (for Hungary only with a thin margin). Figure 8 also depicts the change in euro support for non CEE countries outside of

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[5] According to the TFEU (Article 140, Protocol No. 13), the convergence criteria comprise the following measures: 1) Consumer price inflation rate should not exceed 1.5 percentage points above the rate of the three best performing Member States. 2) The Member State must not subject to an excessive deficit procedure (i.e. government deficit to GDP ratio should not exceed 3% and debt to GDP ratio should not exceed 60%). 3) The convergence process should be durable such that long term interest rate should not exceed the rate of the three best performing Member States in terms of price stability by more than 2 percentage points. 4) Exchange rates should be stable which can be achieved by participating in ERM II for at least 2 years without severe tensions.

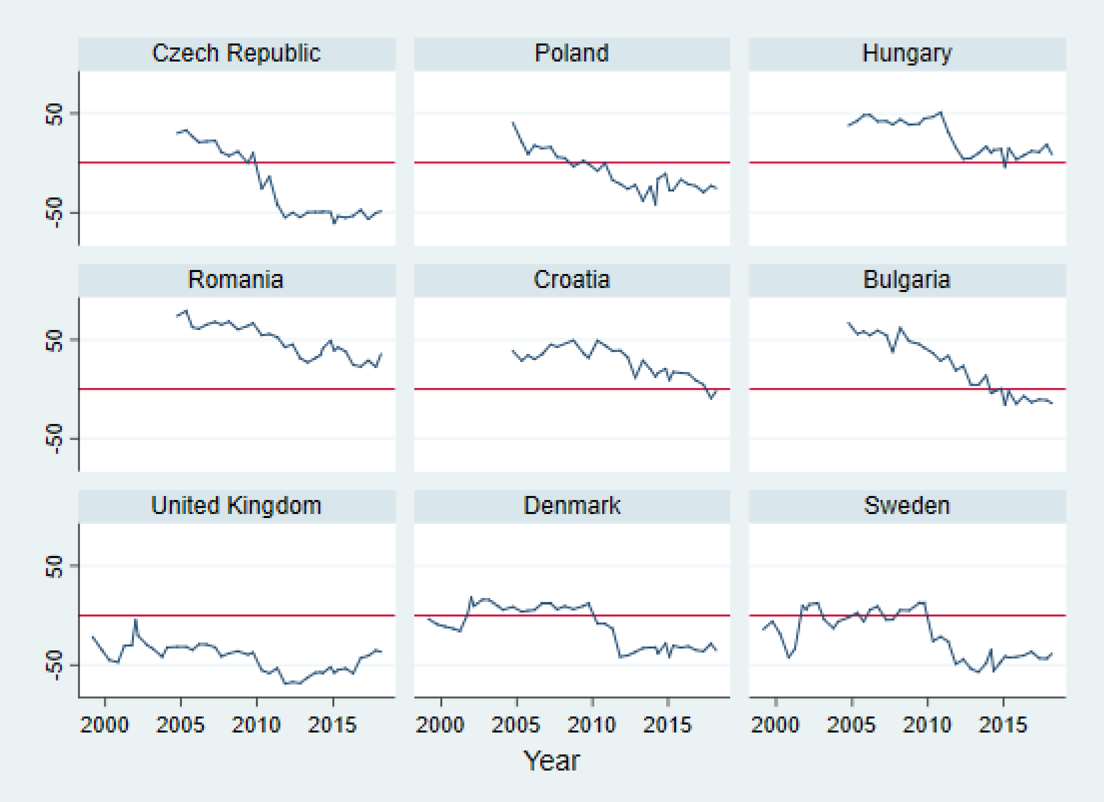
the euro area including the UK, Denmark, and Sweden. While popular support for the euro as the single currency was always negative in UK, the downward trend in popular opinion in Sweden and Denmark after the financial crisis was in line with CEE developments. Before the crisis, Denmark and Sweden also had (slim) majorities favoring the introduction of the euro as the single European currency, though this has been replaced by persistent opposition ever since the crisis.

Table 1: Non-euro area CEE EU Member States - Current exchange rate and monetary policy regimes, ERM II and euro adoption intentions

	EXCHANGE RATE AND MONETARY POLICY REGIME	ERM II ENTRY INTENTIONS OF NATIONAL AUTHORITIES	EURO ADOPTION PLANS OF NATIONAL AUTHORITIES
BULGARIA	➢ euro-based currency board	➢ entry intended by July 2019	➢ no target date specified but general preference for joining as soon as possible
CROATIA	➢ tightly managed float (euro-oriented)	➢ entry intended by June 2020	➢ euro adoption strategy approved in 2018, no time-line specified, but preference for short-stay in ERM II
CZECH REPUBLIC	➢ managed float, inflation targeting	➢ not on the agenda	➢ annual review process, no intentions currently or in the near/medium-term
HUNGARY	➢ managed float, inflation targeting	➢ not on the agenda	➢ not on the agenda
POLAND	➢ free float, inflation targeting	➢ not on the agenda	➢ not on the agenda
ROMANIA	➢ managed float, inflation targeting	➢ conditional draft timeline 2022/23	➢ about 3 years after ERM II entry provided that the convergence criteria are met (draft plan)

Source: Backé and Dvorsky (2019).

Figure 8: Net support for the single currency in non-euro area countries, 1999-2018 (%)



Note: The graph depicts the net support for the euro as the single currency in the European economic and monetary union. The question on euro support reads "What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it. A European economic and monetary union with one single currency, the euro." Answer categories are 'For', 'Against' and 'I don't know'. It is defined as follows: Net support = (For –Against)/(For + Against + I Don't Know) (see also Roth et al. 2016). Source: Eurobarometer surveys from March 1999 (wave 51) to March 2018 (wave 89).

Convergence process and net-beneficiary status in European Union

Regardless of euro adoption, all eastern Member States underwent significant economic convergence from the early 1990s to this day. However, real economic convergence is diverse across CEE countries, with a GDP per capita (in purchasing power parities) ranging from 49.3% to 89.4% of the EU28 average in Bulgaria and Czech Republic in 2017, respectively (Table 2).

The catch-up process has already progressed significantly for some CEE countries, such as the Czech Republic, Slovenia, Estonia, Lithuania, and Slovakia, who have income levels of more than 75% of the EU average. For instance, in 2017, the Czech Republic (89%) and Slovenia (85%) have already surpassed the income levels of several Southern EU members, such as Greece and Portugal with 67 and 77% of the EU28 average, respectively (Eurostat 2019a). Hence, these CEE countries are closely behind Spain (92%) and Italy (96% of EU28 average) in terms of income levels. However, the other CEE countries are still lagging further behind with income levels around two thirds of the EU28 average or less. Convergence seems to continue as recent favorable growth projections for the years 2019 and 2020 indicate (European Commission 2019).

For EMU reform positioning, these findings would suggest that an increasing number of CEE countries should not have a strong interest in an extensive new euro area transfer system, as they may, in the not too distant future, become donor countries in any such system. However, the support for the existing instruments in the EU budget should remain strong for a long time to come. So far, all CEE countries are still strong beneficiaries from EU funding as is clear from the net balances with the EU budget as a share of gross national income (Table 2). Payments in cohesion policy adjust to increasing income only very slowly and with considerable lag. Therefore, the current net balance profile in the classical transfer instruments of Cohesion and Common Agricultural Policy will still characterize EU spending for at least the time period of the coming Multiannual Financial Framework 2021-2027. This should explain a strong interest of CEE countries to preserve these traditional European transfer instruments as they are and not compromise them for new euro area fiscal capacities with their unpredictable beneficiary profile.

Cyclical volatility and labor market situation

Table 2 also shows indicators for GDP volatility over the crisis decade (2007-2017), i.e., the standard deviation as well as the minimum and maximum of real annual GDP growth. These numbers indicate that the decade of (average) economic convergence has also been characterized for most Eastern European countries by a higher GDP volatility compared to Western Europe. Only Poland had a stable GDP growth rates similar to the one of Germany, Italy or France.[6]

While the 2009 recession was deep in CEE countries, with particularly severe contractions of about 14 to 15% of real GDP in the Baltic countries, economic growth recovered immediately after in 2010, and thus much faster than the rest of the euro area. After that, the region returned to a sustained growth path (Eurostat 2019a). Only Slovenia went through a longer transition path to growth with a second recession in 2012/2013 (Backé and Dvorsky 2018). It is worth mentioning that the Baltics achieved fast recovery while they were still outside the euro area but that they stuck to their currencies' euro peg. Thus, these economies recovered without devaluing their currencies. Instead, strong frontloaded fiscal adjustments led to a massive internal devaluation (for the Latvian case, see Blanchard 2012).

Table 2 compares labor market flexibility of CEEs to the old Member States like Germany, Italy, and France by measuring flexibility with the Employment Protection Legislation (EPL) indicator of the OECD. It comprises weighted averages of detailed measures on labor regulation on permanent and temporary work. The final measure varies from 0 to 6, where a low value indicates flexible EPL. The EPL measure suggests that most CEE countries have lower labor regulation than Italy and France but are comparable to Germany, which substantially deregulated its labor markets before the financial crisis. For instance, CEEs often have maximum unemployment benefit durations of about a year with relatively low benefit generosity levels compared to other European countries (OECD 2013).

[6] In fact, Poland was the only country that did not experience a recession during the financial crisis.

In general, unemployment rates in CEE countries have reached levels below those of low-growth Western European countries like Italy of France. However, in some Eastern European economies, unemployment rates have not yet returned to the lower pre-crisis levels (Slovenia, Estonia, Lithuania, Latvia, Croatia, and Bulgaria). Heterogeneity among CEEs is large, with unemployment rates ranging from 2.9 to 11% in the Czech Republic and Croatia, respectively.

The evidence on growth volatility and insufficient employment growth accompanying the growth resurgence after the financial crisis illustrates that CEE economies might benefit from more effective stabilization tools for the EU and the euro area against asymmetric economic shocks.

Fiscal situation

Compared to Western Europe, CEE countries have a more favorable fiscal situation. Debt-to-GDP ratios are currently on average 42.6 and 49.5% for euro and non-euro CEE countries respectively, all well below other euro members and the EU28 as a whole (see Table 2). Only Croatia, Hungary, and Slovenia are somewhat above the 60% threshold imposed by the Maastricht criteria.

Also debt dynamics are more favorable in general, as current deficits are low compared to the EU28 average (Table 3), and the combination of low deficits with a low interest burden and high growth rates leads to a significant fall in debt-to-GDP ratios. Five CEE countries run budget surpluses, while only Hungary, Romania, and Poland had deficits above the EU28 average in 2017.

At the moment, no CEE country violates the Maastricht 3% deficit criterion (see Table 3). Indeed, most CEE countries rarely breach the 3% threshold, with most violations during the financial crisis given the particularly severe recessions in the region. Poland and Hungary are the exceptions, with a large number of violations of the deficit rule from 2005 to 2017, i.e. 9 and 7 violations, respectively. Estonia, in contrast, never violated the deficit rule.

Moreover, CEE economies are characterized by rather low shares of total government spending to GDP (only Hungary is above the EU28 average in 2017; see Eurostat 2019c).

This overall favorable fiscal situation explains why several CEE countries, just like other Northern EU members, have no interest in a relaxation of fiscal rules, and are rather skeptical on new institutions that could be abused for bailing out high-debt euro members (see above 3.1).

Corporate tax competitiveness

CEE countries, both inside and outside of the euro, have substantially lower effective average tax rates in corporate taxation than the EU as a whole.[7] Given these highly competitive corporate tax policies, these countries should have a natural interest in keeping their national fiscal autonomy and position themselves against new EU competencies in tax harmonization. Possibly, CEE countries may be more open to policies that combat tax base erosion due to profit shifting in the

[7] This comes mostly from lower nominal statutory tax rates. But also, other favorable tax regimes are applied in CEE countries. For instance, Hungary uses patent boxes which decrease the effective corporate tax burden for research and development activities in order to attract foreign investors (Evers et al. 2015).

European Union, such as the Common (Consolidated) Corporate tax base proposal from the European Commission (CCCTB or CCTB). The C(C)CTB would harmonize the corporate tax base across Member States but preserve national autonomy regarding tax rates.

Table 2: Summary statistics on selected economic indicators

		Old members			Eastern euro countries					Eastern non-euro countries					
	EU28	DEU	FRA	ITA	SVN	EST	LTU	SVK	LVA	CZE	POL	HUN	ROU	HRV	BGR
GDP per capita in PPS															
2008	100.0	116.9	106.1	106.3	89.6	68.5	62.7	71.3	58.7	83.8	55.4	62.5	50.7	63.0	42.6
2017	100.0	123.6	103.9	96.2	85.0	78.7	78.3	76.1	66.7	89.4	69.5	67.7	62.5	61.7	49.3
Net operating balance with EU budget in % of Gross National Income															
2017	-	-0.32	-0.20	-0.21	0.34	2.09	3.14	1.17	1.98	1.37	1.92	2.66	1.85	0.55	2.92
Real GDP annual growth rates (in period of 2007-2017)															
Mean	1.10	1.44	0.94	-0.33	1.25	1.54	2.35	3.21	1.15	1.93	3.69	1.06	3.05	0.37	2.40
SD	2.06	2.62	1.48	2.26	4.01	6.42	6.27	3.84	6.49	3.02	1.58	3.07	4.44	3.44	2.99
Min	-4.3	-5.6	-2.9	-5.5	-7.8	-14.7	-14.8	-5.4	-14.4	-4.8	1.4	-6.6	-5.5	-7.3	-3.6
Max	3.1	4.1	2.4	1.7	6.9	7.7	11.1	10.8	10.0	5.6	7.0	4.2	9.3	5.3	7.3
Labor market flexibility (aggregated score on scale from 0-6 with higher scores indicating higher regulation)															
2013*	-	2.39	3.21	2.81	2.28	2.47	2.80	2.32	2.44	2.44	2.37	2.04	-	2.54	-
Unemployment rate (in %)															
2008	7.0	7.4	7.4	6.7	4.4	5.5	5.8	9.6	7.7	4.4	7.1	7.8	5.6	8.6	5.6
2017	7.6	3.8	9.4	11.2	6.6	5.8	7.1	8.1	8.7	2.9	4.9	4.2	4.9	11.0	6.2
General Government debt/GDP (in %)															
2008	60.7	65.2	68.8	102.4	21.8	4.5	14.6	28.5	18.2	28.3	46.3	71.6	12.4	39.0	13.0
2017	81.7	63.9	98.5	131.2	74.1	8.7	39.4	50.9	40.0	34.7	50.6	73.3	35.1	77.5	25.6
Effective average tax rates of corporate tax															
2017	20.0	28.8	33.4	23.5	17.3	15.7	13.6	18.7	14.3	16.7	17.5	11.1	14.7	14.8	9.0

Notes: Own compilations. *: Score measured on a scale from 0 (least restrictions) to 6 (most restrictions), last year available (2013, 2015 for Lithuania). Sources: GDP per capita in PPS (Eurostat 2019a); Net operating balance with EU budget in % of Gross National Income (European Commission 2017a); Real GDP annual growth rates (Eurostat 2019b); Labor market flexibility represent OECD indicators on Employment Protection Legislation (EPL, see OECD 2013): The aggregate EPL indicator is a weighted average of "Protection of permanent workers against individual and collective dismissals" (weight of 7/12) and "Regulation on temporary forms of employment" (weight of 5/12); Unemployment rate (Eurostat 2019e); General Government debt/GDP (Eurostat 2019d); Effective average tax rates (Spengel et al. 2018).

Table 3: Deficit in % of GDP and violations of the 3% criterion of the Maastricht Treaty (since 2005 or since the accession year) up to and including 2017

Deficit in % of GDP														
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
EU28	-2.5	-1.6	-0.9	-2.5	-6.6	-6.4	-4.6	-4.3	-3.3	-2.9	-2.3	-1.7	-1.0	148
Old members														
DEU	-3.4	-1.7	0.2	-0.2	-3.2	-4.2	-1.0	0.0	-0.1	0.6	0.8	0.9	1.0	3
FRA	-3.4	-2.4	-2.6	-3.3	-7.2	-6.9	-5.2	-5.0	-4.1	-3.9	-3.6	-3.5	-2.7	10
ITA	-4.1	-3.5	-1.5	-2.6	-5.2	-4.2	-3.7	-2.9	-2.9	-3.0	-2.6	-2.5	-2.4	6
Eastern euro countries														
SVN	-1.3	-1.2	-0.1	-1.4	-5.8	-5.6	-6.7	-4.0	-15	-5.5	-2.8	-1.9	0.1	6
EST	1.1	2.9	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.2	0.7	0.1	-0.3	-0.4	0
LTU	-0.3	-0.3	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.6	-0.3	0.3	0.5	5
SVK	-2.9	-3.6	-1.9	-2.4	-7.8	-7.5	-4.3	-4.3	-2.7	-2.7	-2.6	-2.2	-0.8	5
LVA	-0.4	-0.5	-0.5	-4.2	-9.1	-8.7	-4.3	-1.2	-1.2	-1.5	-1.4	0.1	-0.6	4
Eastern non euro countries														
CZE	-3.0	-2.2	-0.7	-2.0	-5.5	-4.2	-2.7	-3.9	-1.2	-2.1	-0.6	0.7	1.5	4
POL	-4.0	-3.6	-1.9	-3.6	-7.3	-7.3	-4.8	-3.7	-4.1	-3.7	-2.7	-2.2	-1.4	9
HUN	-7.8	-9.3	-5.0	-3.7	-4.5	-4.5	-5.4	-2.4	-2.6	-2.6	-1.9	-1.6	-2.2	7
ROU[a]	-0.8	-2.1	-2.7	-5.4	-9.1	-6.9	-5.4	-3.7	-2.2	-1.3	-0.7	-2.9	-2.9	5
HRV[b]	-3.9	-3.4	-2.4	-2.8	-6.0	-6.3	-7.9	-5.3	-5.3	-5.1	-3.4	-0.9	0.9	3
BGR[c]	1.0	1.8	1.1	1.6	-4.1	-3.1	-2.0	-0.3	-0.4	-5.4	-1.7	0.2	1.1	3
Violations of 3% deficit rule in EU28 per annum														
Total	10	7	3	12	23	22	18	18	11	14	6	2	2	148

Note: Violations of the 3% Maastricht criterion marked with red background color and non-violations marked with green color. (a) Access to EU in 2007, (b), Access to EU in 2013 (c) Access to EU in 2007. Source: Eurostat (2019f); own calculations.

4 The expert survey: structure, execution, and response rates

In the following, we shed more light on EMU reform preferences of CEE countries by presenting the results of our self-conducted expert survey. We conceptualized the questions according to the six dimensions of reform proposals explained in section 2.2. Box 1 summarizes the structure of the survey.[8]

[8] Refer to the Appendix for the full questionnaire.

Box 1: Questionnaire structure of expert survey

General attitudes on euro and economic policy

- Economic benefits of euro (having/introducing the euro in my country)
- Demand-side versus supply-side policies

EU competencies

- Tax policy
- Redistribution
- Immigration policy
- Defense policy

European Monetary Union (EMU)

- European unemployment insurance
- Eurobonds
- Stability and Growth Pact (SGP)
- Insolvency procedure for euro Member States
- Asset purchase programme of ECB
- Completion of Banking Union

Note: Own depiction.

In order to elicit the economic school of thought (corresponding to the “battle of ideas” approach), we start the survey by asking respondents their general attitude towards their preferred theory to boost economic growth (demand-side vs. supply-side view) and also ask how much they support the euro.

The second block of questions concerns preferences on centralization within the EU. This block also contains questions on more EU competencies in taxation and about the redistribution dimension. In addition, it covers two questions on the public good dimension (i.e., on a possible larger role for the EU for defense and immigration).

The third block comprises of questions on some of the key EMU reform topics. The asymmetric shocks dimension is covered by questions on a potential European unemployment insurance scheme. Questions on the desirability of Eurobonds and the asset purchase program by the ECB can give an idea about preferences in liquidity crises. The fiscal rules dimension is included through a question on the SGP. We also ask explicitly about the introduction of an insolvency procedure and the completion of the Banking Union through the establishment of the European Deposit Insurance Scheme (EDIS).

We finish the questionnaire with some personal questions on, inter alia, their age, their birth country, and their area of expertise.

We fielded our expert survey on economists across EU Member States in February 2019. We received answers from February to April 2019. The survey was conducted as an online survey with one email reminder for participants who did not answer and did not explicitly decline participation. The survey was translated in the respective mother tongues for German, French and Italian participants, though the email also included a second version of the invitation in English language. Invitation emails and the web-survey for economists from all CEE countries were in English.

Table 4: Response rates in the survey by countries

Response rates in the survey															
	Old members			Eastern euro countries					Eastern non-euro countries						CEE	Total
Country	DEU	FRA	ITA	SVN	EST	LTU	SVK	LVA	CZE	POL	HUN	ROU	HRV	BGR		
Response rate	0.29	0.19	0.38	0.22	0.24	0.27	0.21	0.31	0.25	0.22	0.26	0.23	0.22	0.24	0.23	0.25
Interviewees	991	880	760	206	118	297	537	117	485	1134	417	787	310	293	4701	7332
Respondents	283	170	289	46	28	79	114	36	120	252	110	181	69	69	1104	1846

Source: own calculations from own survey.

Our sample consists of a comprehensive list of economists in the three largest “old” EU Member States (Germany, France, and Italy), as well as all “new” Member States from CEE countries (Czech Republic, Poland, Lithuania, Croatia, Bulgaria, Estonia, Latvia, Hungary, Romania, Slovenia, and Slovakia). Although we are mainly interested in the variation of attitudes on EU and euro area reforms from new Member States, we include German, French, and Italian expert views as the benchmark against which (heterogeneous) views from eastern member countries can be evaluated.

For the new Member States, we retrieved the relevant participant list by searching for members of all economics departments, institutes, and research centers (EDIRC) in the respective countries which are listed on Repec.org (Research Papers in Economics) as of July 2018. EDIRC indexes economic institutions with links to their members and publications listed on RePEc. Since our RePEc search was for institutions and we subsequently obtained author data from the institution websites, not all survey participants from new Member States are necessarily listed on RePEc and are not necessarily economists (but work for an economics institution) in that respective country.

Since Germany, France, and Italy have arguably much higher numbers of academic and non-academic economists, we sampled only the top 25% of RePEc authors listed at institutions residing in these countries.[9] Altogether, we survey 7,332 economists from 14 EU countries. The number of responses and response rates for each country can be found in Table 4. The overall response rate is about 25% and individual participation rates per country range from 19% in France to 38% in

[9] The lists can be found via https://ideas.repec.org/top/top.[Insert country].html (dated at December 2018).

Italy. All CEE countries have sound response rates from 21 to 31% of all interviewees (Table 4). Reassuringly, response rates are well balanced across countries.

5 Survey results

Table 5 reports means and standard deviations (SD) for all survey questions and countries. Points refer to the answer scale of -4 to +4, where a higher score means a larger agreement with the question's position (for precise question formulation, see Appendix). While the mean indicates the average position of a country's expert community, the SD is informative as to the consensus within the national community (with a low/high SD indicating a high/low consensus).

General attitudes on euro and economic policy

First, we asked survey participants in euro area countries whether they perceive euro membership as economically beneficial. We find that none of the national expert communities of the euro area seem to regret that their country has entered the common currency. This holds both for older members like Germany, Italy, and France, as well as the new entrants from the CEE region (Slovenia, Estonia, Lithuania, Slovakia, and Latvia) which all voice strong average support for euro membership.

In a similar vein, we asked economists from non-euro countries whether they think that the introduction of the euro would be economically beneficial. Economists from non-euro CEE countries (especially Czech Republic and Croatia) are somewhat less enthusiastic about introducing the euro in their countries. However, average answers are positive and economists are generally supportive of a possible euro currency introduction in their respective home countries.

To learn something about a country's dominant economic school of thought, we asked a question on the preference for demand-side (e.g., deficit spending) versus supply-side (e.g., deregulation) measures. Numbers above (below) zero indicate a demand- (supply-)side orientation. The results suggest that most economists in both old and new Member States are somewhat undecided with average and median responses around zero. Some exceptions to this are Slovakia, Poland, and the Czech Republic which are slightly in favor of supply-side policies to facilitate economic growth. By contrast, only participants from Latvia and Lithuania show positive answers on average and thus feel rather in line with Keynesian demand-side policies to foster growth. Differences in Western Europe are small but they confirm the fact that German economists are somewhat more supply-side oriented than their French colleagues (with Italy in between). However, there appears to be large heterogeneities among all expert communities as seen in high standard deviations, indicating significant discrepancies in the opinions of surveyed experts.

EU competences

We further surveyed attitudes towards delegating more competences from the national to the European level. On the first issue of more EU competencies in taxation (through qualified majority instead of unanimity), CEE countries are significantly less supportive than France and Italy.

Most CEE countries line up well with the German position and are only weakly supportive of facilitated EU-legislation on union-wide tax issues. Slovakia, the Czech Republic, and Bulgaria are undecided, while Estonia slightly rejects the proposal. Overall, this confirms our prediction (section 3.2) that the low-tax CEE countries are more cautious in handing over tax competencies to Brussels.

Second, we asked whether there should be more outright redistribution from richer to poorer EU Member States (hence, the dimension of redistributive transfers in a fiscal union). Both in Western and Eastern Europe, there is an obvious correlation: Expert communities in poorer countries are more supportive for an increase of redistribution from rich to poor. The support is relatively high (average scores around 1.5 or more) in Italy, Lithuania, Latvia, Romania, and Croatia. Economists in Germany and, even more so, in the Czech Republic, are rather skeptical. Other CEE countries provide only mild support for progressive transfers across EU Members. The fact that CEE experts are by no means more supportive for more redistribution than in a country like Italy corresponds to a forward-looking perspective on relative income levels in the EU. If the currently stable convergence path of income levels in CEE countries continues, they may soon overtake several western EU countries and would then cease to be beneficiaries of more intense redistribution.

Third, we are interested in the experts' views on a stronger EU role in immigration policy (i.e. the public goods dimension of a fiscal union). Here, the political polarization on the refugee issue between the west and the east clearly has an effect on expert opinions as well. While experts in Germany, France, and especially Italy are strongly in favor of more EU involvement in immigration, CEE respondents are less supportive although with some heterogeneity. For example, communities in Slovenia, Lithuania, Croatia, and Bulgaria are somewhat supportive, while average scores for Estonia, Slovakia, and the Czech Republic are more negative. Interestingly, economists in Hungary and Poland do not put the same negative emphasis on the issue as their governments. The very strong support of Italian economists for more EU immigration competencies is, however, comparable to national parliamentarians from Italy as surveyed in Blesse et al. (2019).

Fourth, we investigated the attitudes on a common European army (again referring to the public good dimension of a fiscal union). While economists in Germany, Italy, and France are again well in line with another and clearly supportive of combined EU defense efforts, responses from CEE countries are somewhat less enthusiastic, although being positive on average with the only exception of Estonia. A possible explanation is a lack of trust regarding EU defense guarantees and a preference for military cooperation in the NATO framework rather than in an EU context.

European Monetary Union (EMU)

Our first EMU-related question asked for the perceived need of fiscal stabilization against asymmetric shocks and mentions the example of a European unemployment insurance scheme. Both

French and Italian economists strongly support more fiscal stabilization of this kind, while participants from Germany are only slightly supportive. Experts in Estonia and the Czech Republic align well with the almost undecided German view, while all other countries support risk sharing through a common unemployment insurance scheme in the euro area. CEE support is somewhat weaker, however, than in France and Italy, with the exception of Romania, Slovenia and Latvia. The friendly perspective on institutional reforms like a European unemployment insurance scheme corresponds to CEE members' national interests given the volatility of growth and unemployment rates over the last decade.

Second, we surveyed the views on debt mutualization in the EMU with a question on Eurobonds. The Eurobond proposal touches upon the lender of last resort function of a fiscal union, but also on the role of (implicit) transfers.[10] The Western European pattern confirms expectations as German economists reject the proposal, while it finds clear support in France and even more so in Italy. Expert communities in most eastern Member States, however, show less support than participants from France and Italy. Only the poorer non-euro countries in the region (Latvia, Romania, Croatia, and Bulgaria) reach average scores of about one or above. Interestingly, Estonians line up with German economists and reject debt mutualization through the introduction of Eurobonds. The lack of Eurobond enthusiasm in the east is consistent with the more sound public finances of CEE countries and a perception that these countries are unlikely to need to safeguard their budgets through mutual financial guarantees with other Member States.

Third, we asked about views on the SGP and the desirability towards relaxing it (referring to the rule dimension of a fiscal union). The findings confirm the support of German economists for rules as they reject a relaxation of the SGP while participants from France and Italy are essentially undecided on the matter. Academic economists in most CEE countries appear to be often well in line with the German expert position. Only Latvia, Romania, and Croatia have positive means (i.e. supportive of a relaxation) while Slovenia is negative but close to zero. As argued above, the high compliance of CEE countries with the SGP could explain this picture.

Fourth, we investigated preferences on an insolvency procedure for euro Member States with unsustainable debt. Participants from all countries (including all euro and non-euro CEE countries) support such an explicit sovereign debt procedure, with German, Slovakian, and Bulgarian economists showing the strongest support on average. Remarkably, French and Italian economists are also somewhat supportive of an explicit mechanism for debt restructuring, but with lower average scores than Germany and all CEE countries. Thus, on that issue, the divide, if any, is rather between Germany and CEE countries on the one hand, and France and Italy on the other hand. This finding is also consistent with a "battle of interest" view in that CEE countries have a more sustainable public debt situation and, therefore, are less concerned about the possible risks of a sovereign insolvency.

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[10] Eurobonds can provide liquidity for euro countries that lose market access. At the same time, they can imply a transfer from countries with high to countries with low creditworthiness.

Fifth, we surveyed which stance economists take on the asset purchase program of the ECB. Thus, the question elicits participants' support regarding the monetary lender of last resort function in the case of a sovereign liquidity crisis. The results suggest that experts from most countries are supportive of the active role of the ECB and want it to continue. Support is especially strong among in France, Italy, Slovenia, Lithuania, Latvia, Romania, and Croatia. Support is the weakest in Germany, where the average response is even slightly negative, and other countries such as Estonia, the Czech Republic, Poland, and Hungary which are undecided.

Finally, participants had to answer whether they support the completion of the European Banking Union through EDIS. Interestingly, this policy reaches unanimous support across expert communities in all countries. Although CEE countries are supportive, the enthusiasm for EDIS does not reach the Italian level in any other country. The most supportive CEE countries (Lithuania, Latvia, Romania, Croatia, and Bulgaria) line up well with the average support level of French experts.

Table 5: Results of the survey

	EU15			Eastern euro countries					Eastern non euro countries					
Country	**DEU**	**FRA**	**ITA**	**SVN**	**EST**	**LTU**	**SVK**	**LVA**	**CZE**	**POL**	**HUN**	**ROU**	**HRV**	**BGR**
GDP p.c.	124	104	96	85	79	78	76	67	89	70	68	63	62	49
Economic benefits of the euro														
Mean	2.70	2.44	2.90	3.00	2.68	2.53	2.55	3.24	-	-	-	-	-	-
SD	1.79	2.04	1.76	1.48	1.69	1.64	1.82	1.30	-	-	-	-	-	-
Introducing the euro in "MY COUNTRY" would be beneficial														
Mean	-	-	-	-	-	-	-	-	0.73	1.11	1.75	1.5	0.99	1.61
SD	-	-	-	-	-	-	-	-	2.66	2.50	2.14	2.58	2.42	2.55
Demand-side vs. supply-side policies														
Mean	-0.64	-0.29	-0.45	-0.30	-0.50	0.71	-0.79	0.78	-1.16	-0.89	-0.38	-0.47	-0.32	-0.27
SD	2.21	2.29	2.51	2.19	2.29	1.99	2.35	2.20	2.26	2.37	2.37	2.79	2.56	2.78
Tax policy														
Mean	1.25	2.09	2.49	0.95	-0.65	1.54	-0.25	1.12	-0.20	0.81	1.14	1.05	1.28	-0.03
SD	2.68	2.49	2.15	2.05	2.50	2.37	2.75	2.55	2.84	2.68	2.65	2.81	2.14	3.30
Redistribution														
Mean	-0.58	0.94	1.59	0.74	0.58	1.34	1.09	1.55	-0.79	1.07	0.53	1.53	1.66	1.03
SD	2.32	2.31	2.21	2.37	1.96	1.99	2.26	2.27	2.53	2.11	2.33	2.30	1.97	2.70
Immigration policy														
Mean	1.94	1.89	3.44	1.05	-0.62	1.14	-0.44	0.41	-0.42	0.16	0.55	0.18	1.11	1.00
SD	2.18	2.29	1.10	2.55	2.40	2.64	2.99	2.79	2.87	2.80	3.02	3.12	2.53	3.24
Defense policy														
Mean	1.93	2.26	2.77	1.21	-1.23	1.51	0.68	1.35	0.42	0.34	1.56	0.97	0.61	1.60
SD	2.20	2.19	1.90	2.42	2.16	2.49	2.84	2.17	2.55	2.82	2.43	2.95	2.49	2.38
European unemployment insurance														
Mean	0.38	2.18	2.90	2.16	0.58	1.79	1.47	2.00	0.52	1.44	1.70	2.50	1.83	1.38
SD	2.75	2.15	1.78	1.56	2.04	1.93	2.45	1.95	2.73	2.32	1.93	1.94	2.05	2.73
Eurobonds														
Mean	-0.92	1.66	2.30	0.77	-0.46	0.93	0.34	1.00	0.03	0.57	0.60	1.76	1.63	1.05
SD	2.77	2.47	2.18	2.33	2.23	2.27	2.43	2.55	2.49	2.50	2.42	2.21	2.15	2.57
Stability and Growth Pact (SGP)														
Mean	-1.55	0.05	0.00	-0.12	-1.11	-0.99	-1.13	0.53	-0.93	-1.31	-0.85	0.15	0.55	-0.63
SD	2.31	2.56	2.60	2.33	2.60	2.34	2.78	2.90	2.55	2.38	2.35	2.92	2.40	2.86
Insolvency procedure for euro Member States														
Mean	2.3	0.90	0.70	1.31	1.38	1.74	2.34	1.88	2.10	1.59	1.77	1.90	1.75	2.27
SD	2.06	2.45	2.52	1.88	1.53	2.08	1.74	1.85	1.88	2.10	1.95	2.28	1.90	2.29
Asset purchase program of the ECB														
Mean	-0.09	1.31	1.79	1.43	0.12	1.47	0.54	1.56	0.36	0.54	0.56	1.59	1.47	0.70
SD	2.53	2.21	2.09	1.82	2.17	1.82	2.35	2.03	2.28	2.41	2.17	2.24	1.82	2.80
Completion of the Banking Union (EDIS)														
Mean	1.28	2.43	3.16	1.72	1.12	2.34	1.35	2.21	1.12	1.82	1.66	2.27	2.17	2.29
SD	2.38	1.96	1.37	1.83	1.34	1.334	2.26	1.57	2.09	1.91	2.22	1.88	1.53	2.08

Note: 9 point Likert-Scale from -4 to +4. GDP p.c.: 2018, in purchasing power standards, EU-28=100, SD: standard deviation. Source: Own compilation.

6 Discussion and potential unifying reforms

6.1 Key empirical findings

With respect to our survey, one could question to which extent expert opinions are relevant to the position of a country as a whole. However, there is an obvious simultaneity of expert and public opinion: A country's expert community has an impact on public opinion through its advice to politics and media involvement. Conversely, expert views and reform preferences are affected by their country's public discourse and voter preferences. Apart from that, the consistency of our survey results with insights from other sources (as reported in 3.1) makes us confident that these findings contribute to understanding a country's policy position in general.

The following significant points are empirical insights that emerge from our various sources (sections 3 to 5):

Economic and fiscal profile

- Macro-economic volatility in CEE countries has been high, in particular in the small open Baltic economies that saw the most severe recessions among EU economies in 2009.
- The simple equation "CEE equals poor" is no longer valid. The most advanced CEE countries are about to overtake several old EU countries in GDP per capita or have already done so. Economic convergence has been ongoing over the past decade without any serious hysteresis effects from the 2009 recession. This is a fact in sharp contrast to the sluggish or even failing recovery of Southern Europe.
- With the exceptions of Slovenia, Croatia and Hungary, government debt levels are at much lower levels compared to Western Europe. Compliance with European fiscal rules has been high since the financial crisis 2009 was overcome.
- A pervasive feature for all CEE countries are low effective corporate tax rates. This feature should not be looked at in insolation as critics of an allegedly unfair tax competition sometimes do too quickly. The lower tax burden for companies can be seen as a partial compensation for remaining locational deficiencies in other fields (e.g., the lower aggregate capital stock).

The relatively favorable economic and fiscal picture should not obscure significant future risks. The very negative demographic perspective in combination with an often adverse societal view on immigration poses serious challenges for future growth potential and fiscal sustainability. The risk of institutional weakening (rule of law, quality of democracy, media freedom) and low progress or even setbacks in fighting corruption in some Member States further add risk factors. However, the past decade has been overall an economically and fiscally successful phase and this recent experience should be important in shaping EU and EMU reform positions.

Economic policy positions

Important findings on economic policy positions are described below. These findings often clearly correspond to these countries' interests given their economic and fiscal situation.

- The support for the introduction of the euro for non-euro Member States has declined considerably over the last decade. Among the CEE Member States outside of the euro area, with Romania there remains only one single country with a clear population majority in favor of a euro introduction. Experts in those countries are somewhat more positive on the euro than the general population but the support for the euro does nowhere reach the levels of CEE euro member countries. The declining appeal of the common currency could be the result of a learning effect: CEE countries outside the euro area did not perform worse than euro members from the region. In addition, euro membership may be perceived as involving new fiscal risks that originate from financial support for Southern Europe (e.g., through the European Stability Mechanisms or the Eurosystem's TARGET system). Fiscal solidarity and mutual guarantees are not particularly attractive for countries with relatively sound fiscal data.
- Citizens and experts in CEE countries are in general more cautious as to more EU centralization and coordination. Experts are much less supportive of a larger EU role in taxes, defense and migration than their western colleagues – a finding clearly consistent with national interests given the low tax situation, the particular security concerns and the particularly negative views on immigration in these countries.
- For EMU-related innovations that could provide more stabilization (European unemployment insurance) or increase trust in national banking systems (EDIS), positions of most CEE countries are friendly but often not that strongly supportive as the Italian benchmark. This might mirror the demand for macroeconomic insurance given past large GDP fluctuations but at the same time concerns on the risks of future unfavorable transfer patterns within the euro area.
- An insolvency procedure for sovereigns in the euro area is welcomed in all CEE countries.

6.2 The endogeneity of euro accession

The fading appeal of the common European currency from the perspective of most non-euro CEE countries must be taken seriously as indicated by Eurobarometer population polls. Legally, EU Member States with a derogation are supposed to strive for the implementation of the euro. By default, the entry to the common currency is an autonomous national decision and a sober cost-benefit analysis will be part of the political and societal decision process.[11]

The outcome of this cost-benefit analysis may have become increasingly questionable in some countries. It is a worrying result that a significant pro-euro popular majority has only survived in

[11] Technically, Member States with a derogation can, for example, simply postpone the accession to the exchange rate mechanisms indefinitely and thus consciously non-comply with one of the convergence criteria.

one of the poorer EU countries (Romania) whereas the euro has become very unpopular in countries with a particularly successful economic convergence (like the Czech Republic).

This finding is consistent with a perception that EMU membership increasingly entails a participation in guarantee and transfer schemes that support or might eventually even bail out high-debt countries. From the perspective of rather fiscally sound countries with a good growth performance (outside the euro), this perception makes euro membership less attractive. This interpretation is consistent with our evidence that experts particularly from more advanced non-euro countries are less supportive of a SGP relaxation or more redistribution. They also want to see a credible insolvency procedure in place for euro countries that suffer from a debt overhang.

Therefore, the upcoming EMU reform decisions must be seen in a new light. These reforms are not just important for the functioning of the euro zone with the current membership of 19 EU Member States. In addition, these reforms will further change the perspective of EU Member States with a derogation and thus affect the chances of further euro enlargement. In this sense, euro accession is an “endogenous” process that will be crucially be determined by the upcoming institutional reforms.

6.3 EMU reform packages

Our prediction is that a one-sided mix of reforms could cement the derogation status of the more advanced CEE countries outside of the euro. A reform that, in an unbalanced way, prioritizes fiscal solidarity without improving the incentives for a prudent growth and budgetary policy will hardly be met with large applause in the CEE region. Only comprehensive and balanced package deals are likely to increase the euro appeal for these countries. Given the positioning of national experts in our survey described above, reform packages that should be attractive from the eastern perspective should include the following elements.

A viable insolvency procedure for insolvent euro countries could be an important safeguard against the likelihood of future bail-outs. Its establishment would signal that unsustainable debt levels will not provoke a transfer solution, but will be solved through write-offs for private creditors. Under the status quo, crucial elements are missing that could make any such debt restructuring a credible option for larger euro countries that still appear “too big to fail”. Key institutions like the European Commission or the European Central Bank that today are highly influential in crisis decisions tend to taboo the possibility of a sovereign insolvency. Moreover, banking regulations and capital requirements still need to be adjusted to prepare the ground. So far, national banks in countries like Italy are heavily exposed to their home countries’ public debt. A haircut on sovereign bonds would wipe out bank equity in these countries and kick-off a new major banking sector crisis. All these issues would have to be addressed in the course of establishing a euro area insolvency procedure.

In a similar vein, a strengthening of fiscal rule effectiveness would be particularly desirable for CEE countries with their often sound public finances and a good recent record of compliance with the SGP. However, CEE countries are unlikely to accept the threat of financial fines that are linked to EU cohesion spending. Eastern Member States have a huge financial interest into cohesion and are, therefore, cautious on any kind of conditionality attached. Other approaches for increasing fiscal rule credibility might be more attractive, such as increasing the role of the less political European Fiscal Board as a watchdog (at the expense of the Commission which is often criticized to politicize its decisions how to use the SGP's room of interpretation).

New stabilization tools that help euro members to cope with transitory negative growth and unemployment shocks should be a further appealing element of a comprehensive euro reform package given some CEE economies' experience with high GDP and unemployment volatility. Thus, the more negative position on permanent transfers and debt bail-outs must be clearly distinguished from a larger support for short-run stabilization tools. Stabilization tools, however, are an important example for the "all or nothing" principle of a big bang reform package. Ambitious stabilization tools without a credible insolvency procedure run the risk of degenerating into a mechanism for permanent transfers in a new debt crisis. Hence, new stabilization tools should be particularly appealing to CEE countries in combination with an insolvency procedure, but much less so in isolation. In addition, their design should credibly exclude permanent transfers.

Finally, there is one obvious "no go" reform element: CEE countries have been using their national tax policy autonomy to make their locations more competitive for corporate investment. Tax harmonization that would cut back national autonomy within the EU or within the euro area will be seen very critically in the region as this would be perceived as limiting a legitimate and important freedom in national economic policy.

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8 Appendix

Questionnaire

Do you agree with the following statements?

General attitudes on euro and economic policy

Economic benefits of euro

Having the euro in "MY COUNTRY" as the official currency is economically beneficial.

Disagree				*Undecided*				Agree
☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

OR

Introducing the euro in "MY COUNTRY" as the official currency would be economically beneficial.

Disagree				*Undecided*				Agree
☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

Demand-side versus supply-side policies

Governments can try to stimulate economic growth through different instruments. Some argue that demand-side policies (e.g. an increase of debt-financed public spending) are more effective than supply-side policies (e.g. a reduction of regulation in labour and good markets).

Disagree				*Undecided*				Agree
☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

EU competencies

Tax policy

The European Council should be able to vote on tax issues with a qualified majority instead of unanimity (e.g. common caps or floors for corporate taxes binding for Member States).

Disagree				*Undecided*				*Agree*
☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

Redistribution

There should be more redistribution from richer to poorer EU Member States.

Disagree				*Undecided*				Agree
☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

Immigration policy

The EU should get a stronger role in immigration policy (e.g. decisions over admission standards or allocation of refugees across Member States).

Disagree				*Undecided*				*Agree*
☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

Defense policy

A European army under the command of the EU and financed from its budget should take over duties from national armies regarding international conflict deployments.

Disagree *Undecided* *Agree*

☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

European Monetary Union (EMU)

European unemployment insurance

The EMU needs fiscal stabilization systems to insure Member States against asymmetric shocks (e.g. a common European unemployment insurance).

Disagree *Undecided* Agree

☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

Eurobonds

All euro countries are jointly liable for Eurobonds and all euro countries pay the same interest. The EMU should issue Eurobonds.

Disagree *Undecided* *Agree*

☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

Stability and Growth Pact (SGP)

The SGP defines deficit and debt limits for EU Member States. The SGP inappropriately constrains fiscal policy in Member States and should be relaxed.

Disagree *Undecided* *Agree*

☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

Insolvency procedure for euro Member States

There should be an explicit sovereign insolvency procedure for euro Member States with unsustainable debt.

Disagree *Undecided* *Agree*

☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

Asset purchase programme of ECB

The European Central Bank (ECB) has taken a strongly active position in recent years by purchasing sovereign bonds of euro countries. This strongly active position of the ECB should continue.

Disagree *Undecided* *Agree*

☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4

Completion of Banking Union

For its proper functioning, the European Banking Union should be completed through the European Deposit Insurance Scheme (EDIS).

Disagree *Undecided* *Agree*

☐ -4	☐ -3	☐ -2	☐ -1	☐ 0	☐ +1	☐ +2	☐ +3	☐ +4