

Germany: Chancellor Merkel presented her vision of reforms in the euro zone

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On 18 October Chancellor Angela Merkel presented in the Bundestag the main elements of her concept for the stabilisation of the euro zone. The chancellor believed that the key causes of the crisis are: errors in the structure of the euro zone, an excessive increase in debt and the loss of competitiveness in a part of eurozone members. The proposed remedy is intended to expand the range of the integration of the euro zone. Firstly, the euro zone member states will harmonise their financial policies (through the establishment of common banking supervision) and introduce a tax on financial transactions which is at the moment supported by 11 euro zone countries. Secondly, Merkel recognised that it is vital to consolidate the common fiscal policy through the strengthening of the position of the European Commissioner for Economic and Financial Affairs who could intervene in issues relating to national budgets (i.e. have the right to veto them). Thirdly, in Chancellor Merkel's opinion it is important to harmonise economic policy by limiting the right to veto which national countries have in areas particularly sensitive to the functioning to the euro zone. In this context Angela Merkel mentioned the possibility of establishing a solidarity fund also available to countries planning to join the euro zone and which would support reforms intended to improve competitiveness in countries introducing fiscal consolidation. The fund could be financed by revenues from the tax on financial transactions. Fourthly, Merkel pointed to the fact that the new competences granted to the EU institutions will require an increase in their legitimacy. Nor did she rule out a form of making distinct sessions of the European Parliament for EMPs from the euro zone member states, for example by establishing suitable parliamentary committees.

Commentary

- Angela Merkel's proposal stems from her conviction that the solutions implemented over the last two years (the European Stability Mechanism, fiscal pact, the strengthening of the Stability and Growth Pact) provide a good but insufficiently effective boost to the introduction of structural reforms and the limitation of debt – this year the budget deficits of many countries have exceeded the levels required by the European Commission.
- However, a divergence between Germany and France, which has been growing under the presidency of Francois Hollande, over the final shape of the euro zone may cause

problems for the implementation of Merkel's plan. At the last EU summit neither country succeeded in drawing up a joint statement. France considers the possibility of the EU institutions interfering with its budget policy to be particularly controversial. Both countries will probably agree on the shape of the joint supervision of the banking system.

- Chancellor Merkel claims that the solidarity fund (sometimes called the budget of the euro zone by the press) does not represent a threat of a split in the EU, nor will it constitute competition to the EU budget. The source of the revenues for this fund in the form of the tax on financial transactions may however discourage countries from outside the euro zone from joining this project. In this case the creation of the solidarity fund accompanied by the likely reduction in funds for the cohesion policy in subsequent Multiannual Financial Frameworks of the European Union may contribute to a deeper divide within the EU. Furthermore, there is still the risk that France will demand that the possibility of using the fund be confined to the euro zone. Germany can accept this in exchange for pushing through its vision of the remaining reforms.

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