

Germany's attitude towards the enlargement of the eurozone¹

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Abstract: The purpose of this paper is to answer the question as to why Germany is cautious towards a faster enlargement of the euro area. The usual explanation focuses on concerns that some of the candidate countries are not economically ready to adopt the common currency and their membership could destabilize the monetary union. However, such an approach does not take into account other factors that may influence Germany's reluctance to speed up the enlargement process. One of them is the conviction that the existing division of integration does not translate into economic costs and a long-term political cleavage in the EU. Another argument explaining Germany's position is their doubt about the economic policy preferences of the candidates which may prove to be crucial in the upcoming reform of the euro area governance. Some of them can drift towards more interventionism and support for the debtors' positions which is at odds with German interest.

Keywords: eurozone, enlargement, Central and Southern Europe, European Union, differentiated integration.

JEL codes: F15, F33, F36, F45, O42, O52, P1.

Introduction

Germany is often considered to be among biggest beneficiaries of the monetary integration in Europe (Brezinski, 2019; BMWi, 2019a; Juneja, 2017; Petersen, Böhmer, & vom Stein, 2013). The euro helped the country to escape from the revaluation pressure on the Deutsche Mark and was an important factor in achieving solid economic growth, stunning performance on the labour market as well as record numbers in fiscal and trade surpluses. Germany became also more influential in the global economy and promulgated through the euro its key ideas on fiscal discipline and of central bank independence in monetary

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policy. What sours the balance of membership in the Economic and Monetary Union (EMU) is the experience of the eurozone crisis (2009–2013) which exposed weaknesses of its design and forced Germany to engage in a costly rescue policy.

Governance reforms which should make the monetary union less vulnerable and prepare for a next crisis are the main challenge for the future of the euro area. Another but less urgent, but structurally also important is enlargement. According to treatise regulations there are currently eight ‘non-euro’ countries, seven of which—Bulgaria, Croatia, Czech Republic (Czechia), Poland, Romania, Sweden and Hungary—obligated to adopt the single currency. Before joining they must meet the criteria of economic convergence (monetary and fiscal nominal indicators as well exchange rate stability) and of legal compliance. When it happens exactly depends on the candidates’ initiative and determination, thus the obligation has a soft character. There is also Denmark which enjoys the special status of the ‘outs’ shared until recently with UK. It has no obligation to join the monetary union but is nonetheless tightly connected with it through the exchange rate mechanism (ERM II).

Germany seems to be ambivalent on the euro-enlargement question and has not been shy to demonstrate it. For example, in September 2017 the then head of the European Commission (EC), Jean-Claude Juncker, proposed financial and technical assistance for remaining member states if they decide for a fast adoption of the common currency. In this way the European Union (EU) would have a chance—as Juncker argued—to come out stronger after the depressing experience of Brexit (European Commission, 2017). Reactions in Germany were reserved and instead of chances they stressed rather threats for euro area coherence (Reuters, 2017a). Therefore the intensified preparations of Bulgaria and Croatia in 2020 to join the ERM II (which succeeded in July this year) and to adopt the euro two years later, were met with concerns whether both candidate countries are economically strong enough for a full EMU-membership (Mihm von & Mussler, 2020).

This simple explanation may, however, fall too short. This text claims that there are other factors shaping Germany’s view on the euro area getting larger—well beyond the issue of the economic maturity of some candidates. The list includes, the internal problems of the eurozone, the question of expected economic benefits from the enlargement, as well as considerations about the structure of EU integration as a whole. Making a more systematic overview of these issues in order to better understand Berlin’s rationale is the primary task of this analysis.

There are three hypotheses which refer to the German approach to the euro area enlargement and which bind these questions together. First, the cautious stance stems from the preference for differentiated integration as a second-best solution to uniform integration, but still a beneficial and stable one. Second, the reluctance of Germany is associated with the concern that a fast-track enlarge-

ment can lead the eurozone to become more exposed to asymmetric shocks caused by the new members. Third, Germany assumes that the EMU is far from being an optimal currency area and requires reforms. The admission of new members may mean that these redesigns can push the area in a direction not necessarily consistent with the economic interests of Germany.

The text is designed as follows. The first section is devoted to theories and concepts which can be useful in framing a member country's problem with enlargement of the common currency area. The next step is a more detailed analysis of the specific interests of Germany with regard to the monetary integration in the EU and possible admission of new members. The third section examines what the enlargement of the eurozone would mean for German interests related to the uniformity versus the division of the integration space. The following part is devoted to the issue of stability of the monetary union with regard to the enlargement process and the last section focuses on the proximity of economic preferences between the candidates and Germany.

1. Theoretical background

Discussion about the eurozone's enlargement has been dominated by the question of entry conditions and potential positive effects of a membership—rather in the manner of the EU-enlargement assessment (Dabrowski & Rostowski, 2006; Darvas & Szapáry, 2008). Since the financial and economic crisis (2008–2013) there has been more focus on risks—caused by the tensions within the eurozone—and debates about longer paths for candidates towards the adoption of the common currency (Dandashly & Verdun, 2018; Kiohos & Stoupos, 2018; Skouras, 2019; Visvizi & Tokarski, 2014, 2018). The specific perspective of the current members on the enlargement process has drawn far less attention—obviously overshadowed by the internal problems in the monetary union. However, the question of a bigger EMU can soon move to the political mainstream together with the wider discussion about the direction of changes in economic integration in the European Union, driven by the consequences of Brexit (e.g. a weakened opposition against deepening) and new fiscal measures introduced during the pandemic crisis.

There are three concepts that can help to frame the perspective of the insiders. The first one refers to structural integration, specifically under which conditions a differentiated, flexible integration can be a better solution than a uniform one (Dyson & Sepos, 2010; Hobolt, 2014; Ondarza von, 2013; Schimmelfennig, Leuffen, & Rittberger, 2015; Schimmelfennig & Winzen, 2020). The 'one area' integration seems to be the primary option with better conditions for achieving comparative advantage, specialization and economies of scale. However it has a price: in case there are differences of interest between members, or they are just too different in structural terms, it can be difficult to deepen the inte-

gration and take advantage of more sophisticated forms of cooperation. The principle of uniform integration may thus lead to stagnation and finally to disintegration. The way out of this dilemma may be the concept of ‘differentiated integration’ (DI). It enables the progress of cooperation in a smaller group of ‘innovators’ while the basis of integration remains unchanged. If innovators succeed they can enjoy the rent from the precedence (e.g., dominate the new decision-making bodies) and may count on a gravitation effect to attract the other participants. This option is not without risks either: it can lead to the formation of alternative pathways within integration and, in the longer term, to disintegration too.

The second concept concerns economic conditions under which a monetary union can exist and is known as the optimum currency area (OCA). Its foundations were laid in the 1960s by Mundell, McKinnon and Kenen who pointed out the necessity of labour mobility and fiscal federalism in order to cope with asymmetric shocks. Further research (overview: Dellas & Tavlas, 2009; Horvath, 2011) added here business cycle synchronization also, flexibility of wages, structural convergence and proximity of policy preferences. The strength of the OCA-concept is less a quantification of economic effects of the common currency, but rather—as Krugman stressed—offering insights into trade-offs faced by members entering the monetary integration (Krugman, 2012). This is what was well synthesized by Eichengreen, who—based on the observation of the eurozone crisis—extended the list of focal issues for an optimum area by, e.g., the intrinsic character of asymmetric shocks, condition of banks, impact of mobility of high-skilled workers or debt restructuring (Eichengreen, 2014). From this perspective every enlargement of the currency area rises to a challenge since it makes the structure more complex and possibly more exposed to asymmetric shocks.

The question is how optimal a monetary union is in raising the importance of economic policy preferences of participating countries. The current members could be more interested in enlargement if they find a near consensus with candidates on how to deal with emerging risks and how to reform the union. Common or contradictory interests can be identified by dominating ideologies, culture and historical experience—an alloy sometimes called “stability culture” (Heinemann, Osterloh, & Kalb, 2014). Another hint on proximity can come from the institutional arrangements explored by the “varieties of capitalism” (VoC)—a current in the political economy which has gained in popularity in the last two decades. Its premise is that institutional arrangements in economies are complementary and create efficient systems with specific competitive advantage. On the most general level their typology stretches from liberal market economies (LMEs) and coordinated market economies (CMEs) (Hall & Soskice, 2001; Hancké, 2009), but further research extended the analysis on mixed models and specific cases such as state capitalism, countries in transition, southern capitalism or Asian economies (Amable, 2004; Bohle & Greskovits,

2012; Schneider, 2013; Zhang & Walter, 2012). For this chapter the offshoot which deals with the connection between the varieties of capitalism, macroeconomic policies and the eurozone crisis is particularly important (Hall, 2018; Iversen, Soskice, & Hope, 2016; Johnston & Regan, 2016). They offer an interesting insight into preferences on monetary integration that can follow directly from specific institutional arrangements in national types of capitalism.

2. The German interests and the European integration

2.1. The structure of integration

Being an export-oriented economy and an actor interested in the political unity of the continent Germany is interested in wide and uniform integration in the first place (Böttger & Jopp, 2017). Membership in such an area boosts specialization, helps to reduce transaction costs, creates economies of scale and expanding business networks. Moreover, the existence of a single economic space also brings external effects—strengthening the bargaining position against competitors in the global economy. This kind of space is the single market of the European Union which is based on four economic freedoms, common policies, budgetary means and own governance. With 28 members it accounted in 2019 for 58,5% of German exports and 57,2% of imports (BMW, 2020). Its emergence has been a long process from basic negative integration (barrier removal) aimed at free trade towards a rising number of positive elements of economic and political union. The lesson from the past development teaches that it is usually hard to find a common denominator for all participants' interests in such a deepening process. Every step forward meant a choice between the risk of fragmentation with some countries staying “outside” and the risk of stagnation.

Germany has always tried to find a balance between the progress of the European integration and keeping its coherence. It has seemed to be manageable by, first, blocking paths to institutional differentiation in form of separate decision-making bodies which could lead to open competition between ‘groups’ or ‘platforms’. The second tool has been the idea of the so-called open avantgarde (Klein, Plottka, & Tittel, 2018), i.e., developing cooperation projects in smaller groups of member states, but under the assumption, that they can then be easily extended to the entire area of integration (such as the ‘enhanced cooperation’ nowadays). This division should not lead to any significant disturbances in economic cooperation within the entire area.

This sophisticated approach has been practiced by Germany quite efficiently. It helped to soften borders between the European Communities and EFTA, encouraged the first enlargement in the 1970s, as well as creating the base for the single market, monetary integration and the Schengen zone in the next

decade. In the 1990s it was applied to combine further enlargements with the Maastricht compromise which enabled the euro area to start in a smaller group of countries but with the clear perspective to expand and include the whole EU (Hüttmann, 2021).

2.2. Stability of the monetary union

From the German perspective the chances for integration in Europe to succeed are primarily dependent on sound foundations of member states' economies. It means that they should be able to cope with the pressure of intensified competition and rising mutual dependency without too many risks—sharing institutions, redistribution and interventionism on the common level.

From the beginning of the discussion on introducing a common currency, Germany has emphasized the primacy of such requirements. It has meant a strong bias towards real convergence: an approach that competed against a 'shortcut' to a monetary union through the creation of political institutions—supported by France (Brunnermeier, James, & Landau, 2016, p. 82). The German method was applied first through the currency 'snake' in the 1970s, which evolved later into the European Monetary System. It should bring business cycles closer together and—over time—standardize macroeconomic preferences. The bias was only strengthened by the difficult experience of the German unification and its own monetary union with the former GDR (Zank, 2019).

These goals were reflected in the Maastricht nominal convergence criteria, which became a kind of entry gate for candidates and measured the quality of monetary policy and the state of public finances. Before the beginning of the last stage of the EMU the common governance was strengthened with the Stability and Growth Pact the purpose of which was to ensure fiscal discipline in the Member States—an area which, unlike the monetary sphere, still remained within the scope of national competences. The restrictions should narrow the space for manoeuvre and push governments towards supply side reforms as the main reaction to crisis.

The financial and economic crisis, which started in 2008 in the EU proved that this convergence system does not work efficiently. Many economies—Greece in particular—fell into massive difficulty due to high debt and dependence on foreign capital inflow (Mody, 2018; Sandbu, 2015). Ultimately Greece was saved by a package of measures that included partial debt restructuring and new credit lines in exchange for supply reforms and budget cuts (so-called austerity). From the German perspective this costly experience just strengthened the ordoliberal conviction that weaker economies should not be allowed to join the common currency (Bulmer, 2014). The EU should be tough on examining the entry conditions specified in Maastricht and look also at broader categories of long-term stability in the financial and banking sector (BMW,

2019b, p. 49). If this is ignored—as Wolfgang Schauble, the Minister of Finance stressed in an interview—the fate of Greece can be faced again (Reuters, 2017b).

2.3. Economic policy preferences

Germany's attitude towards euro-zone enlargement is also determined by the question, whether new members will favour its vision of financial governance and—in general—of economic policies, including approaches to fiscal transfers, labour market, social policy. Assuming that the eurozone will be widened the latter areas will gain in importance in the coming years.

In financial governance the German view is linked to the tradition of ordoliberalism, the federalist structure of the country and also collective memory of the hyperinflation experience. This very specific 'stability culture' (Hillebrand, 2015; Howarth & Rommerskirchen, 2013) translates into a conviction on the individual accountability of states, advantages of market logic and the necessity to tame the risk of moral hazard through tough constitutional rules. Another factor pushing Germany in this direction is the model of capitalism. Being a typical, coordinated market economy (CME), it tends naturally to more stability in macroeconomic policies, which back long-term employment, collective agreements and investment strategies of firms based on "patient" capital. Despite globalization processes this design seems to be very persistent (Busch, 2006). The preferences of Germany are also shaped by financial dependencies faced in international economic relations (Pérez, 2019). It has the status of a structural creditor: the net international investment position (NIIP ratio) determining the difference between assets and liabilities in external relations was + 71.6% of GDP in mid-2020 (Eurostat, 2020b). This makes Germany interested in policies securing the real value of liabilities, i.e., forcing a stable macroeconomic environment with low inflation, budgetary discipline and—in case of default—credible insolvency procedures. Many of these elements were underscored in one of the most important speeches of Chancellor Merkel on the Euro Area in the Bundestag in 2011 in which she called for a European "stability culture" (Bundesregierung, 2011).

On the eve of monetary integration Germany was on track to enforce the preferred model of financial governance (Dyson & Featherstone, 1999; Howarth & Schild, 2021; Schoeller & Karlsson, 2021). The independence of the ECB and the principles of monetary policy suggested a strong stability bias. In the fiscal sphere too low governance deficits and debts took a prominent position among the euro area rules, even if without credible enforcement. However in the recent decade many of these priorities fell under strong criticism from France and the Southern European members and the most outspoken demonstration of a shifting mood became the ultra-expansive monetary policy of ECB after 2012 which hardly fitted the German mindset (Steen, 2012). Some mechanisms of the euro area—such as the Target2 system, made Germany also more vulner-

able towards the debtor countries. A huge positive balance of more than 1 trillion euro should be considered as a risk in the case of a breakup of the euro area and possible defaults of countries such as Italy (Sinn, 2020).

The member states have entered a political confrontation over how the eurozone should look like in the coming years. It concerns the question of fiscal rules, common bonds, completion of the banking union and capital market union, possibly also labour market harmonization, as well as the monetary policy mandate of the central bank. In the North-South divide (Schoeller, 2020), the enlargement stops being neutral: preferences of newcomers can strengthen one or another side of the political argument in decision-making bodies. It concerns not only the voice in the Eurogroup but also a new balance in the rotating system in the ECB Governing Council after the number of members exceeds 22. The previous readjustment by nineteen members provoked concerns in Germany that proponents of the ‘hard-currency’ approach will lose influence in this body (Belke & von Schnurbein, 2012; Euractiv.de, 2014). Thus the question as to who will join and what policy preferences will be represented, cannot be considered irrelevant.

3. Eurozone enlargement and the coherence of integration

In line with the assumptions adopted in the previous section Germany’s caution towards a ‘fast-track’ enlargement of the euro area should be explained by limited economic costs and disadvantages associated with the diversification of the integration space and the low political risk as the ‘non-euro’ option does not create an alternative path within the EU towards monetary union.

The economic disadvantage of differentiated integration should be visible mainly in trade exchange of Germany with the euro area countries having grown much faster in recent years than with the EU-members outside the monetary union. The data hardly confirms this assumption (Destatis, 2020). As presented in Figure 1, between 2010 and 2019 the trade turnover with the other eighteen other countries belonging to the euro area increased by slightly more than 30%. The small, open and catching-up economies of Central and Eastern Europe—Estonia, Lithuania, Latvia, Slovakia and Slovenia—recorded the greatest dynamics of 73%. Ireland, Portugal, the Netherlands and Malta also noted significant increases in exchanges with Germany: over 50%. Much below the average was exchange with the largest partners—France and Italy—which suffered from economic stagnation in the post-crisis decade.

Against this background, the trade with the ‘non-euro zone’ looks stunningly positive. Even taking into account the United Kingdom, which quickly began to feel the effects of the decision to leave the EU in statistics, the exchange increased by 56% (without it the indicator reaches 70.4%). The catching-up economies of Central and Southern Europe—Poland, Hungary, the

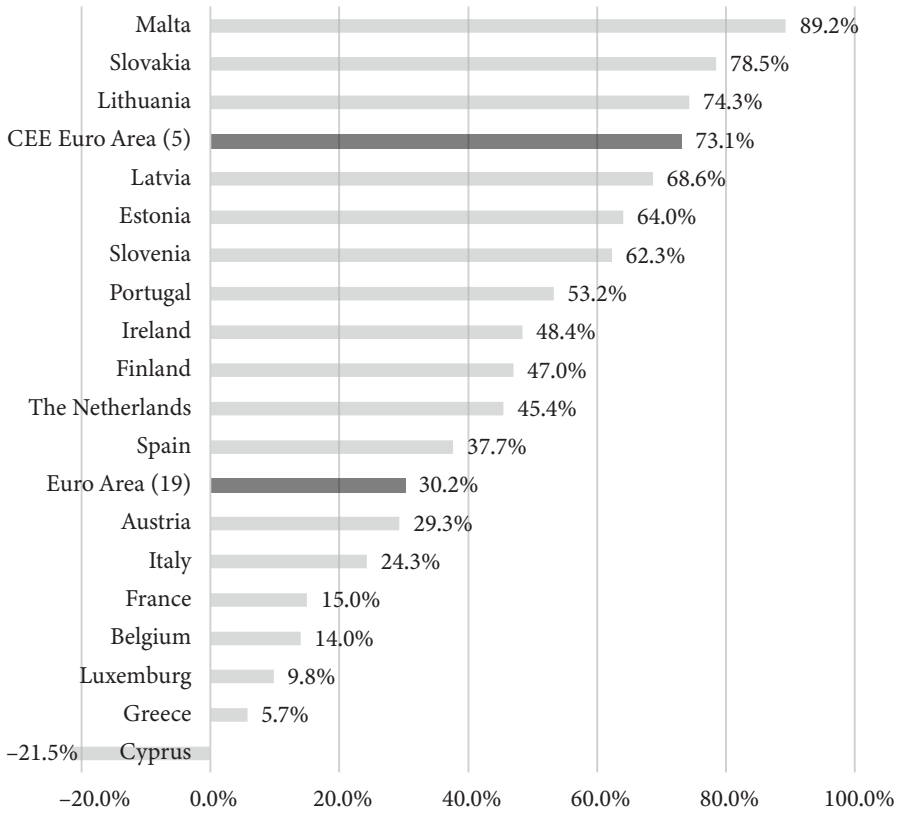


Figure 1. Trade partners of Germany in the euro Area, turnover, percentage change between 2010 and 2019

Source: (Genesis—Online Datenbank; Destatis, 2020).

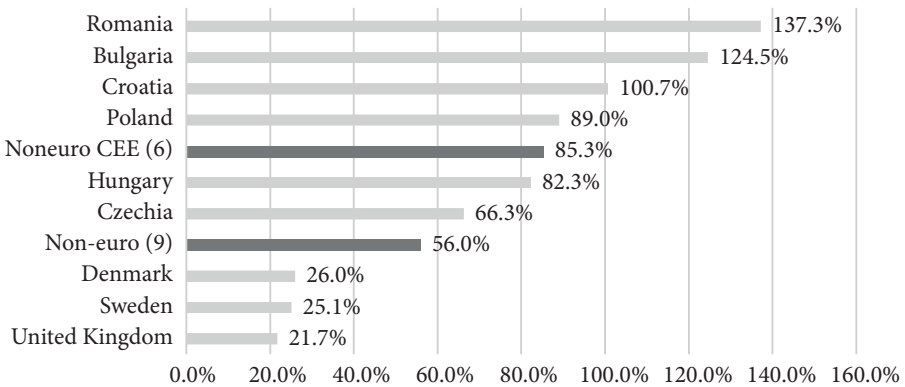


Figure 2. Trade partners of Germany in the EU outside the euro area, turnover, percentage change between 2010 and 2019

Source: (Genesis—Online Datenbank; Destatis, 2020).

Czech Republic, Romania, Bulgaria and Croatia—saw the biggest growth of 85.3% (see Figure 2). It is worth noting that at least some of them, e.g. Poland and Romania, do not qualify as small open economies due to their relatively large internal markets, and yet they recorded very high dynamics in their exchange with Germany. Therefore it is difficult to argue that the monetary union in the last decade meant an intensification of economic relationships between Germany and the euro area countries in comparison with the EU countries maintaining their own currencies. This observation can strengthen arguments—already supported by some publications (Baldwin, 2006; IMF, 2015, p. 19; Festoc, L’Oeillet, & Roudaut, 2017)—that positive trade effects from the euro adoption are rather moderate.

The second argument—on the risk of an alternative platform of integration in the EU emerging as a counterbalance to the monetary union—has lost its shine in recent years. The main reason is Brexit which has significantly changed the distribution of population and economic potential, as well as political importance within the EU. The United Kingdom was the main proponent of ‘shallow’ integration, had the status of the second largest EU economy with the most important financial hub of Europe in the City of London and great influence in the common institutions (top positions, but also the seat of the European Banking Authority, EBA). The UK was politically determined to strengthen the EU pillars outside the eurozone realm and outweigh the tendency to deepen integration. This is evidenced by, for example, the attempt to stop the Fiscal Compact (Spiegel, Peel, Barker, & Pignal, 2011), or the 2016 pre-referendum agreement with the EU which also includes a small mention that the organizations remains a ‘multi-currency union’ (European Council, 2016). An alliance of countries reluctant to deepen integration began to emerge around this idea—this was signalled, e.g., by the right-wing Polish government which recognized the United Kingdom as the most important partner in the EU (Cienski, 2016).

Having the UK outside means a fundamental shift in the balance of power in the EU in favour of the euro area (Tokarski & Funk, 2018). The Brexit shrinks the share of ‘non-euro’ group in the EU’s GDP from 29,1% to just 14,5% (2019 data: Eurostat, 2020a). In the voting system in the European Council the power shifts further towards larger countries from which only Poland does not belong to the euro area. In such an environment it will be very difficult to create a blocking minority specifically for ‘non-euro’ interests (Gábor, 2020; Kleinowski, 2019). This means that sticking to the EU-membership outside the monetary union as a long-term option goes with a rising exposure to political marginalization and a ‘rule-taker’ role—a problem perceived even by Denmark which has a confirmed ‘out’ status (Sørensen, 2020).

From now on Germany can actually rely on the power of economic gravity and wait patiently for the next enlargements—a position which was articulated by the German Minister of Finance (Bundesfinanzministerium 2018). None of the countries outside the euro area is able to take up a leadership in the group

and build a stable and strong 'non-euro' platform. Poland might have a relatively large population, but is small in terms of GDP, just as Sweden, Denmark and the Czech Republic. Bulgaria, Croatia and Romania want to join the euro zone as soon as possible. The group is already fracturing.

4. Eurozone enlargement and the stability of the monetary union

The ability of candidates to join the euro area is measured by their compliance with the so-called convergence criteria. The recent report of the European Commission on them from mid 2020 (European Commission 2020a) delivers a mixed picture (see Table 1). Among the economic indicators the most diverging factor is the level of inflation which only in Croatia and Sweden remains in the accepted threshold (not more than 1.5% over the average of three best performing EU-Member States). A much better impression comes from the data on the stability of public finance and long-term interests: only Romania had faced problems to meet these criteria. The no-compliance with the exchange rate stability (a membership in the ERM II) and the legislation requirements must be perceived in a different way as they are a matter of political decision and less of current economic development.

Table 1. Convergence criteria and the candidate countries (state: March 2020)

	Price stability	Exchange rate stability	Long-term interest rates	Public finances	Legislation compliance
Bulgaria					
Czechia					
Croatia					
Hungary					
Poland					
Romania					
Sweden					
Light grey field: compliance with the criteria Dark grey field: missing compliance with the criteria					

Source: (European Commission, 2020a).

In its report the EC decided to deliver also a broader view, beyond the Maastricht criteria mentioned in the Table 1. It includes other economic indicators important for the enlargement process, e.g. the external balance which shows if a country is able to be competitive on international markets and keep

sustainable financial relationships. Another is the intensity of linkages in trade and investment with the eurozone-partners which could suggest how much the economy's business cycle is synchronized with those of the area. The EC also devotes a lot of attention to the business environment, i.e., the issue of corruption and government efficiency. All of them offer an extended view on a candidate's ability to avoid asymmetric shocks and—if they happen—to cope with them in an effective way.

It is no surprise that the most stable country in this context is Sweden of which the only larger weakness is a risk of a bubble on the housing market. The country has a surplus in the current account, a top quality business environment and a high level of market integration with the euro area. Relatively few warnings can be associated with Czechia and Poland: both with a surplus in their external balance and integrated markets and a business environment at the average level of EMU-members. A mixed picture comes from other candidates. Bulgaria's flaws are corruption and low quality of government. In the case of Croatia there is doubt about the business environment quality and macroeconomic imbalances associated with high debt and low potential growth. Problems with the quality of regulation and institutional environment are also mentioned in the case of Hungary. The most troublesome candidate is, however, Romania, with a negative external balance, high risk of macroeconomic imbalances, as well as regulatory unpredictability.

What can also fuel concerns in Germany in the context of potential enlargement is political commitment of candidate countries to euro area membership. The problem can emerge when there is a marginal political consensus in a new member country on the common currency and relatively low support for it in the society. Such countries can become a source of trouble for the euro area e.g. in the case of crisis when difficult joint action must be undertaken within a short period of time. If the domestic policy prevails in calculations of such a member state even essential decisions for survival of the monetary union may fail. In this context recent data from the Eurobarometer (European Commission, 2020b) may stir up concerns: only Hungary and Romania have a clear majority perceived the euro as advantageous for the country. The most skeptical society has Czechia where 36% share this view and 58% express the opposite opinion, followed by equally minded Sweden (see Figure 3). The mood against the euro prevails also in Poland. It is highly improbable that with such a feedback from their societies the governments of these countries will give up national currencies in the coming years. The more striking in this context is the path chosen by authorities of Bulgaria and Croatia—countries already on the path to join the monetary union in the next two years and with societies demonstrating at least a tepid attitude towards the adoption of the euro.

A newcomer in the monetary union becoming a source of political tensions is not a hypothetical problem. A case that fits into the worrying scheme described above happened already in October 2011 when Slovakia—who joined

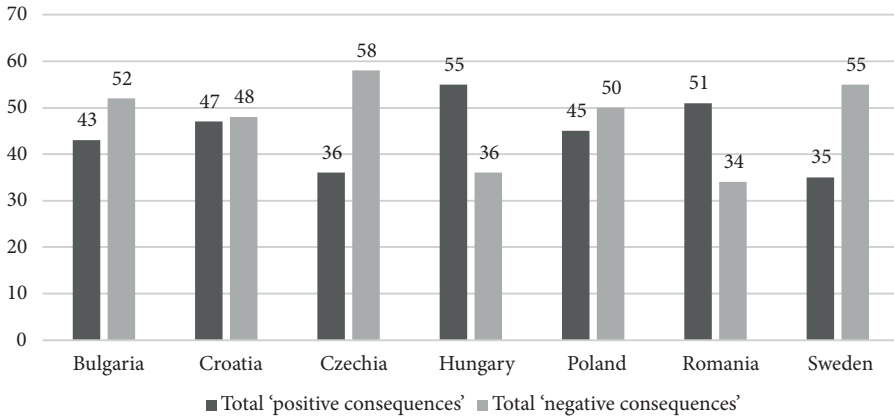


Figure 3. Respondents' opinion in non-euro EU countries in per cent: 'Do you think the introduction of the euro would have positive or negative consequences for our country?'

Source: (European Commission, 2020b).

two years earlier—blocked the rescue fund EFSF upgrade aimed at supporting economies most endangered by the then crisis. The parliament of Slovakia voted against it mainly due to opposition from the small right-wing SAS government coalition party. It argued that the country's share of €7.7 billion in the total fund of €440 billion was too large because the country's GDP per capita is only 74% of the EU average while the one of Greece's, the main beneficiary, 89%. In other words the EFSF is a tool to transfer capital from poorer members to and richer ones. In this way the internal political match in one of the smallest economies of the euro area became a threat for the very existence of the eurozone. Slovakia's delay caused confusion in the stock markets and even Angela Merkel felt compelled to call for a quick ratification. Finally, the largest opposition party the social democratic SMER agreed to support the EFSF for the promise of calling early elections (Groszkowski, 2011; Halas, 2018). The whole story, however, delivered arguments to proponents of a cautious enlargement of the euro area: governments in countries without stable, long-term support in the society for such a deep integration shouldn't decide for a quick adoption of the common currency. A longer path can be better both for the union and for themselves.

5. Eurozone enlargement and economic policy preferences

Euro-candidate countries from Central and Eastern Europe may, at first glance, have preferences that are quite close to the German ones. They all are open economies with a high share of exports in GDP and interested in flawless

functioning of the single market. Any protectionist tendencies or market distortion—which can also follow from macroeconomic policies—threaten their competitiveness model based on low costs. Thus there is an area of common interest with Germany, which, due to export interests, is also a proponent of open, free trade space with limited interventionism. Furthermore their development strategies—rooted in the economic transition of the 1990s and the Washington Consensus—have based on attracting foreign capital. This model, called an ‘FDI-based’ (Myant & Drahokoupil, 2015) or in a more critical assessment the ‘dependent market economy’ (Nölke & Vliegenthart, 2009), means more orientation towards expectations of investors—such as low and predictable inflation—and a rather cautious approach to excessive public spending.

This view can be supported to a significant extent by the results of the opinion polls of experts from Central and Southern European countries on topics related to economic integration conducted by the ZEW (Blesse, Havlik, & Heinemann, 2019). When it comes to the rigors of the EU fiscal rules one can find a German-like position in Czechia, Poland, Hungary and Bulgaria. Also all CSE candidates tend to support insolvency procedures in case of default of states instead of more debtor-friendly restructuring. A more divided opinion concerns the debt mutualization in the form of Eurobonds, which find strong proponents in Romania, Croatia and Bulgaria. The ZEW study gives also some insights about preferences on broader economic policy. It shows a strong supply-side bias in Czechia and Poland. These countries are—together with Hungary and Bulgaria—also closer to Germany in assessment of the asset purchase programme of central banks. There is as well a surprisingly moderate support among the candidates for redistribution and joint unemployment insurance. Due to lower GDP per capita and higher exposure to crisis one could expect a more ‘Southern’ position on these topics.

The two above mentioned arguments must be confronted with some important reservations on the stability of preferences in CSE. Some research shows that the region has had rather a patchwork-like institutional design, still in a post-transition flux (Rapacki, 2019). Furthermore since the previous financial crisis there has been growing criticism on costs of past market reforms, low-cost profile of competitiveness and too much dependence on foreign capital (Morawiecki, 2016). It has opened the consideration for the idea of state capitalism with the free-market forces balanced and steered by government intervention involving not only regulation, but also ownership, redistribution and active industrial policy (Alami & Dixon, 2020; EBRD, 2020; Musacchio & Lazzarini, 2014; Sperber, 2019). In the CES region the most pronounced example of this trend is Hungary which has drifted towards a mix of neoliberal practices with state control (Fabry, 2019). Another is Poland which since 2015 has started a ‘re-polonization’ of the banking system, a more active wage policy, increased the role of the state in industrial policy (Jasiecki, 2017) and launched a controversial overhaul of the judiciary system (Kowalski, 2021).

It is too early to say what it means exactly for the economic preferences of these countries but it cannot be excluded that they get closer to interventionist models such as that propounded by France. Such a scenario may bring Germany into a more cautious position towards the eurozone enlargement process. Instead of new free-market oriented allies who prefer rigid fiscal rules and support the “frugal” North, the Federal Republic can face a strengthened coalition of the South. This would mean a much more challenging political landscape in the decision-making bodies of the euro area and higher boundaries to enforce their own systemic preferences.

Conclusions

The purpose of the text was to search for explanations why Germany may have a cautious approach to a fast-track enlargement of the eurozone. The idea was to go beyond the simple argument relating to the economic risk associated with the admission of less developed countries from CES and to review a wider spectrum of factors. Three areas should contribute to the overall picture: the uniformity of integration in the EU, the economic stability of the eurozone and the preferences regarding economic policy in the monetary union.

The first hypothesis that Germany can quite easily accept the integration divided between the euro area and the “rest” has convincing foundations. On the one hand there are no significant economic costs (or rather lost benefits), as evidenced by, for example, the excellently developing trade with the ‘non-euros’. Moreover, Brexit has undermined the chances for emergence of a strong political platform of countries with their own national currencies and not interested in deeper integration. The traditional concern of Germany about competition of different integration paths can be dissipated in this way. Without the United Kingdom the ‘non-euro’ group is too small in terms of GDP and it also loses a more significant political influence over the functioning of the entire EU.

The second hypothesis which sees the problem for Germany in the economic condition of the candidates and then a higher risk of asymmetric shocks, leads to mixed conclusions. The analysis of the convergence criteria shows that the non-euro economies are not too far from meeting the nominal requirements. It is a matter of a political decision to suppress inflation, join the exchange rate stabilization mechanism and fulfill the legal criteria. A bigger challenge is the institutional inefficiency of some candidates, which cannot be overcome in short term. Another issue can be the missing stability of political consensus about the membership in many candidates: it could become a problem for the union decision-making process if new measures are needed to react to a crisis.

The third hypothesis sees Germany’s cautious approach to enlargement in concerns about proximity of economic policy preferences within the candidate countries. As the euro area faces major governance reforms, completion of the

banking union and the burning problem of the North-South division, this factor can play an important role. At first glance Germany could be interested in eurozone enlargement. Not only Sweden could be an ally but also candidates from the CES region due to their free-market transformation path, dependency on foreign capital and low cost competition profile. In this perspective they could all belong to supporters of both stability oriented financial policy and limited regulations on the single market. However this view has flaws. CES countries do not belong to the group of creditors, like Germany; moreover, among them there are rising and more pronounced tendencies to interventionism related to the ambition to create a more innovative economy and a welfare state. They can increase the pool of common ideas with France—but not necessarily with Germany.

If someone looks for a confirmation of Germany's caution against speeding up the enlargement of the eurozone, it can be found in the 'Next Generation EU' programme adopted in 2020 which is intended to support the recovery of the European economy after the pandemic crisis. If bringing new members into the monetary union were a priority the programme would probably be used as a political tool with the access limited to euro area countries and ERM II members (Bloomberg, 2020). Nothing of the sort has happened: the economic recovery fund is unconditionally addressed to all EU members and makes no reference to the prospect of lifting the distinction between monetary union and other EU Member States in the near future.

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