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The future of the euro area – Poland's geo-economic perspective

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Abstract
The article presents the discussion about the future of the euro area. The starting point of this analysis is an outline of the main conclusions drawn from the crisis in this area, which began in 2010. Next, the documents regarding future reforms of the Economic and Monetary Union (EMU), submitted by the European institutions during 2015-2017, will be analysed. Subsequently, the discussion on these proposals among the member states, especially the most influential – France and Germany, is being analysed. The article is aiming at considering the preliminary results of these negotiations and the possible reforms of the euro area. The Author is also wondering whether these reforms can adequately prepare the monetary union for another crisis or even worsening the economic situation in Europe. In this context and in relation to the broader geopolitical situation in 2018, the question is raised whether Poland should mull over joining the EMU. Finally, the geo-economic consequences of entering the EMU or being outside the monetary union will be examined in a situation where the reforms of this area are incomplete and the eurozone seems to be not well prepared for a possible next crisis.

Keywords: the Economic and Monetary Union, reforms, geo-economics, Poland

Przyszłość strefy euro – perspektywa geo-ekonomiczna Polski

Streszczenie
Artykuł prezentuje analizę dyskusji na temat przyszłości strefy euro. Punktem wyjścia analizy jest zarys głównych wniosków wynikających z kryzysu w tej strefie, który rozpoczął się w 2010 r. Następnie zostaną przedstawione dokumenty dotyczące przyszłych reform unii gospodarczej i walutowej (UGW), przedłożone przez instytucje europejskie w latach 2015–2017. Następnie analizowana jest dyskusja nad tymi propozycjami wśród państw członkowskich, zwłaszcza tych najbardziej wpływowych – Francji i Niemiec. Celem artykułu jest rozważenie wstępnych wyników tych negocjacji i możliwych do wprowadzenia reform w UGW. Autor zastanawia się również, czy te reformy mogą odpowiednio przygotować unię walutową na kolejny kryzys lub pogorszenie koniunktury gospodarczej w Europie. W tym kontekście i w związku z szerszą sytuacją geopolityczną w 2018 r. zostanie postawione pytanie, czy Polska powinna przystąpić jak najszybciej do UGW. W celu zbadania tej kwestii zostaną przeanalizowane geo-ekonomiczne konsekwencje wejścia do UGW lub pozostawania poza nią w sytuacji, gdy reformy tego obszaru są niekompletne, a strefa euro wydaje się nie być dobrze przygotowana na ewentualny następny kryzys.

Słowa kluczowe: unia gospodarcza i walutowa, reformy, geo-ekonomia, Polska

The aim of the article is to analyse the discussion about the future of the euro area. The starting point of this analysis is the main conclusions resulting from the crisis in this area, which began in 2010. Next, the principal documents regarding future reforms of the Economic and Monetary Union (EMU) will be analysed. These reports were presented by the European institutions in 2015–2017. Subsequently, the discussion on these proposals among the member states, especially the most influential – France and Germany, will be analysed. The discussion has intensified since the election of a new president in France (2017) and the new cabinet came through in Germany (2018). The article is aiming at considering the preliminary results of the negotiations instigated in 2018 and the possible short-term or long-term reforms of the euro area. I am also wondering whether these reforms can adequately prepare the monetary union for another crisis or can even worsen the economic situation in Europe. In this context, the question is raised whether Poland should join the EMU down the road. Finally, I will examine geo-economic consequences of entering or being outside the monetary union in a situation where the reforms of this area are incomplete and the eurozone seems to be not well prepared for a possible next crisis.

The theoretical basis for my analysis is the geo-economic perspective, a concept that closely links geopolitics with economic policy. According to this approach, public actions taken in the sphere of economy can serve geopolitical purposes (Luttwak 1990: p. 17–23; Blackwill, Harris 2017; Baldwin 1985; Haliżak 2012; Grosse 2014a: p. 40–65). This is especially true for currency regimes. In this article, I try to deepen theoretical reflection on the relationship between economy and geopolitics in relation to the monetary system in Europe. I am asking two basic theoretical questions. Firstly, whether external geopolitical conditions and objectives should have a primary impact on the decision to enter an economic and monetary regime (in this case EMU)? Secondly, if maybe rather the internal conditions and functionality of a given regime should be taken into account, which may have also geopolitical repercussions? Obviously, both dimensions should be taken under consideration, although the external geopolitical circumstances are of great importance in the Polish public debate, and internal ones are usually overlooked or neglected. Therefore, the main hypothesis adopted in the study is that the institutional incompleteness of the monetary regime may have negative geopolitical consequences, unless the member state is adequately prepared to participate in such cooperation. The methods employed in the study are as follows. Firstly, examining the programming documents proposing reforms in the

EMU, secondly, scrutinising the feasibility of these reforms in the short and long term, and thirdly, assessing whether reforms respond to the main challenges arising from the recent crisis and can protect EMU against any serious problems in the future.

The euro area has been slowly emerging out of an existential crisis since 2015, which threatened its existence or could cause it to partially disintegrate. The first time such a risk occurred was in 2012, when the stabilisation of the financial markets was the result of a daring declaration by the head of the European Central Bank (ECB) about its readiness to use all means of monetary policy necessary in order to defend the EMU. The second time this happened was in 2015, when the future of Greece as a member of the eurozone came into question. Painful experiences of crises indicated a number of weaknesses within this monetary system.

The first conclusion to be drawn from this crisis is that taking part in this project leads to serious economic, social and political consequences, especially when a given country's economy is not ready to join the monetary union. One must first carry out structural reforms and increase convergence with the most advanced economies of the euro area, before entry into such a union can take place, seeing as macroeconomic convergence does not occur automatically once a given country is in the eurozone, as was forecast earlier by certain economists (Christodoulakis 2009: p. 86–100).

Secondly, for countries which are included in assistance programmes coping during a time of crisis literally involves shock therapy, the suspension of democratic rules and political dependency on lenders in the most basic domestic policies. Monetary unions do not have the instruments needed to reduce the social impact of crises in countries which are most vulnerable, such as social transfers or anti-unemployment measures, which are described by economists as automatic stabilisers. The EMU also seems to lack policies which actually promote economic growth and restoration of competitiveness. Instead, the anti-crisis policies dictated by the EMU have multiplied both social and political costs. According to the International Monetary Fund (IMF), policies concerning countries such as Greece have focused too much on fiscal austerity, while failing to increase economic competitiveness (*Greece*… 2017). At the same time, they have also been ineffective in terms of limiting debt increases and failed to lead to substantial structural reforms within Greece itself.

Thirdly, the single currency system is asymmetrically beneficial for countries with the most competitive economies and with the greatest political influence within the monetary union. An example of this is Germany, which even during the time of crisis recorded high export and budgetary surpluses. In this, they clearly increased their geopolitical influence over the EU. The monetary union simultaneously aids the accumulation of all sorts of costs by the weakest countries, especially during times of economic downturn. Meanwhile, there is no political discourse about a systematic and effective reduction of this asymmetry, even though for decades such solutions, which balance inequalities arising out of monetary unions, have been discussed by economists (Whyman 2014: p. 399–415). The mechanisms operating within the EMU move the impact of such adjustments onto individual countries and have proven generally ineffective, both in relation to countries which possess a surplus, as well as current account deficits (Grosse 2016a: p. 28–50).

Fourthly, entering a monetary union is not easy, because it is loaded with a series of conditions and at the same time is dependent on negotiations which are, among other things, meant to define the exchange rate of the national currency for the euro, one which is most beneficial for all parties. Leaving the monetary union, however – even if it turns out to be a total catastrophe – is almost impossible. This creates an incredible dependency for states which are weaker or which are experiencing economic difficulties when compared to other countries in the union, especially those which are politically dominant.

Fifthly, the permanent asymmetry of the monetary union in favour of Germany (and, to a lesser extent, of the Netherlands) and at the expense of the other member states, as well as the difficulties in the institutional balance of the EMU – make this system vulnerable to further crises and internally unstable. German leadership (referred to as hegemony) is in this situation unstable or relatively fragile (Strange 2018: p. 125–139). Also, the relations between Germany and France (and their allies from Southern Europe) may be compromised if the economic and political imbalances between Germany and other members of the EMU last longer or even increase.

The debate about the necessity to enter the euro area flared up in Poland in 2018. Any discussion about the perspective of Poland's membership of EMU has to take into account the above experiences. This is why before such a move can be made, we have to ask a few fundamental questions: has the EMU been reformed since the most recent crisis and are these sorts of reforms the subject of considerations by political decision-makers, and also can they be introduced soon? Can they fill the institutional gaps which were revealed during the recent economic crisis? And as a result, will the monetary union in Europe become better prepared for another crisis, or at least reversal in the economic trends? According to Jean-Claude Trichet, the former boss of the ECB, the level of public and private debt across the globe is worryingly high, which is also true of the prices of various assets, which indicates the rising likelihood of speculative bubbles. In his opinion, this could foretell of a new economic crash in the near future (Trichet 2018). If this is the case, is there a chance that future anti-crisis political strategy will be less focused on austerity measures and more on increasing growth? And finally, the key question is whether a system of monetary union has been thoroughly balanced, if we are talking about relations between states which are most competitive and have the highest export surpluses, and then those which have weaker economies and are operating with a chronic current account deficit? If not, this means that the monetary union remains a firmly asymmetrical system. This would give some states economic benefits and strengthen their geopolitical position, and the rest would pay in economic and social terms, while diminishing their role in the international community, thereby increasing their political dependency on states which have a dominant position within the EMU and the EU.

Initial proposals for reforms: the European Commission (EC), France, Germany

Since the start of the crisis in the eurozone in 2010, European decision-makers have tried for some years to tackle ensuing problems. The majority of experts and politicians themselves admit that the eurozone was not sufficiently prepared for the crisis, nor has it managed to introduce essential reforms which could, even in 2018, protect it effectively from another large-scale crisis. Clearly, some partial and incomplete reforms have been undertaken, such as the introduction of the banking union. Nevertheless, the political strategy for emerging from the crisis depended largely on shifting the burden of making adjustments onto countries mired in internal turmoil.

The monetary union and the IMF provided aid in the form of loans for the most vulnerable states. The terms these loans involved were meant to tighten budgetary discipline within member states and force structural reforms. They were intended to reduce public debt, make labour markets more flexible, improve administrative efficiency and the conditions for enterprise investments, as well as stabilising the financial sectors, especially leveling the balance sheets of banks. In spite of all these efforts, the ECB took upon itself a substantial part of the burden involved in halting the crisis. And it is mainly thanks to its policy of quantitative easing and the lowering of the exchange rate that we have seen a gradual improvement of the economic situation as of 2015 (Grosse 2016b: p. 11–56).

European institutions Reports

In the 2017 report covering the reforms of EMU, the European Commission highlighted the basic problems within the eurozone (*Document*... 2017: p. 12–17). This included difficulties in achieving internal convergence, which changed into macroeconomic divergence between individual members of the monetary union during the crisis. It drew attention to the low level of public and private investments, which make it harder to begin the process of quick rebuilding of economic growth. It covered existing risks in financial systems, connected with burdening banks with too many risky loans, as well as the rising level of debt within member states. The Commission concluded that the EMU is still struggling with the problem of institutional gaps and is managed in a way which is ineffective (on the European level). Finally, the EMU suffered from a serious deficit of democratic legitimacy, which made managing the zone even harder. The diagnosis thus presented by the Commission was in line with the opinions held by numerous economists (Stiglitz 2016; Kawalec, Pytlarczyk 2016; Grosse 2016a).

The Commission's recommendations covering future reforms within the EMU repeated in many ways the proposals put forward earlier, in a report produced by the five leading EU presidents (Juncker et al. 2015). Both documents draw attention to the need to tighten fiscal discipline in member states so as to reduce the budgetary deficit and public debt, in line with requirements set out by the Maastricht Treaty. It was deemed necessary to complete the construction of the banking union. This involves additional – aside from those delivered by the banks themselves – mechanisms of financing a single resolution fund by member states and a special line of credit from the European Stability Mechanism (ESM). Another element of the banking union should be the European deposit guarantee schemes. Both documents support the idea of creating a capital markets union, hence a greater integration and control over non-banking financial institutions. They also support the creation of a European Monetary Fund (EMF), which could replace the ESM (which was established during a time of crisis). And yet, they do not mention an increase to the financial scale of this fund, which in fact turned out to be sufficient in the case of Portugal, Spain, Ireland and Greece, but would definitely not prove to be so in the case of economies such as Italy becoming insolvent.

The Commission proposed the creation of a new type of securities in the eurozone, secured by treasury bonds (*sovereign bond-backed securities*). They would in theory make it easier to facilitate the recovery of balance sheets of banks burdened with risky loans. And yet, they are criticised by economists and ratings agencies, as involving many threats to financial institutions (Münchau 2018b: p. 9).

Another tool for rectifying the eurozone, both in relation to the banking sector and the member states threatened with insolvency, would be the introduction of common eurozone debt. For many countries in Northern Europe this proposal means covering the debts in Southern European states, as well as opening the gates to increased public debts within the EMU. This would, however, be a form of systemic mechanism for eliminating macroeconomic imbalances from the level of the monetary union, especially if these sorts of common bonds were used to achieve investment aims in the weakest member states.

The Commission assumes that the main mechanism for eliminating these macroeconomic imbalances should be market mechanisms (*Document*... 2017: p. 24), which seems to omit existing EMU experiences. It also seems to indicate that states should individually make economic adjustments, encouraged by macroeconomic monitoring procedures and the European Semester, conducted by European institutions. Up till now, the aforementioned procedures were not effective in reducing these inequalities in terms of monetary union, even if these supervisory activities were supported by aid funds. The Commission stressed the need to increase macroeconomic conditionality for EU funds (including those dedicated to cohesion policy), and therefore conditioning their availability based on the ability to carry out the recommendations taken from the European Semester. At the same time, in both the documents under analysis there are contradictory recommendations covering the reduction of economic inequalities. On the one hand, there are recommendations to strengthen structural reforms in member states, intended to improve economic competitiveness, such as liberalisation of labour markets, limiting access to and level of welfare and pension payments and so on. On the other hand, the documents also cover the ideas of minimum welfare standards and social benefits in the EU, stabilising taxation and regulating labour markets, which in the case of some member states could lead to increased worker protection, levels of taxation and welfare payments. In the case of Poland, this type of activity would rather damage economic competitiveness and increase debt, rather than lead to reforms which make it ready to enter the monetary union.

Both documents mention the question of introducing automatic stabilisers, especially in the case of so-called "asymmetric shocks". The Commission proposed, among others, a unified system of unemployment benefit payments in cases of sudden increases in levels of unemployment in given member state. It also proposed a mechanism for protecting public investments, so that the EMU can take over responsibility for such investments from member states in which the economic climate has worsened. In the report drafted by five EU presidents there was mention of the European Fund for Strategic Investments, which would support weaker member states in rebuilding economic growth and competitiveness. On the other hand, the Commission report encourages the introduction of a separate budget for the eurozone, which could be a source of financing both for structural investments, as well as social security in times of economic hardship. In these documents, there is mention of the need to set up a ministry of finance for the eurozone, which could both oversee fiscal policies in member states, as well as managing investment funds, social spending and other forms of financial redistribution within the EMU. Finally, both documents cover the question of gradual building of a political union with the intention of reducing the democratic deficit. There is talk of strengthening the Eurogroup (an informal body which brings together ministers from the euro area countries), introducing a unified representation of the eurozone among external organisations, especially the IMF, as well as strengthening the role of national parliaments and the European Parliament (EP) in managing the EMU. Experiences show that instruments such as the European Semester or financial assistance programmes in the eurozone markedly weakened the role of national parliaments and national democracies in relation to budgetary policies, while work of the EP in managing crises situations was merely symbolic (Fasone 2014: p. 164–185).

France and Germany

Emmanuel Macron, the president of France, came out in support of some of the ideas presented above during his speech at Sorbonne University in 2017 (*Initiative…* 2017). This has had substantial political impact, seeing as neither the position of the Commission nor the presidents of European Union have any decisive influence on the future of the eurozone. The decisive role in terms of these reforms is played by member states, and especially France and Germany. Macron supported the idea of budgets and a minister of finance for the eurozone with the aim of increasing structural investments and boosting economic growth. He concluded that the budgets for the eurozone should come mostly from European taxes. At the same time, he backed the idea of more standardised taxation systems, harmonised regulations of labour markets and social welfare payments across the whole of the EU.

Because of their elections and difficult coalition talks, Germany waited half a year to respond to Macron's speech. In the coalition deal arrived at in 2018, the parties of the new German cabinet devoted only five out of 177 pages to the future of the EU (*Ein neuer Aufbruch*... 2018). The document stressed the need to strengthen austerity policy within the EMU and follow the fiscal criteria set out by Maastricht. This was seen as a continuation of Wolfgang Schäuble's earlier policies by Olaf Scholz (from the Social Democratic Party), considered to be a proponent of budgetary discipline (Karnitschnig 2018). Nevertheless, the agreement supported the proposal for extracting some investment capital for the EMU. At the same time, there was no mention in the text about a separate budget or a finance minister for the eurozone. The coalition members have agreed to setting up the EMF, and even mentioned the possibility of including it into European law. These were very general statements, which were later on interpreted by government politicians as not leading in any way to limiting the competencies of the Bundestag in terms of overseeing all financial transfers from the EMF (Böttcher et al. 2018). Some prominent politicians even questioned the need to establish the EMF (Rettman 2018a).

The government coalition supported actions needed to harmonise taxes and social standards in the EU. The document makes no mention of a banking union, but German politicians signaled that the condition for progress with reforms in this union will be the stabilisation of the banking sector, and especially solving the problem of high-risk loans (Spahn 2018). The coalition deal made by the new government clearly dampened the expectations some had regarding reforms in the eurozone.

Proposals being discussed in 2018

Reform proposals under consideration

Although officials, politicians and experts from the eurozone are discussing a series of reforms, they were being introduced very slowly and in rather limited ways. The most important question regarding the permanent mechanism of macroeconomic balancing of the eurozone was not even being discussed among politicians in 2018. This might include systemic financial transfers from countries with a trade surplus to those who have a deficit in their current accounts. This is an idea which was proposed far back by John Maynard Keynes as part of the plan of establishing an International Clearing Union (Cesarano 2006; White 2012; Grosse 2017: p. 65-82). Everything suggests that policies intended to respond to new crisis in the EMU will involve austerity, and will not support economic growth and competitiveness among the weaker countries. There was no agreement about reducing the social costs related to the crisis with the aid of European funds, such as EU social transfers. Although the German finance minister, Olaf Scholz, initially offered that an insurance fund could be established for national social security systems in the event of a sudden increase in unemployment, it would only be ad hoc loans to the state in crisis, not transfers of non-returnable assistance. In addition, Scholz's proposal met with opposition to part of the ruling coalition, including Minister of Economy, Peter Altmaier (Greive et al. 2018). Even if Chancellor Merkel ultimately supports this proposal, she will probably limit Germany's financial commitments to a maximum. This means that the least competitive and the most indebted states will have to struggle alone with social costs arising out of further austerity policies, even if they would be spread over time.

The reforms planned in 2018 included a humble investment line for the eurozone, as part of a future multiannual financial perspective for the whole of the EU. The level of this funding in terms of initial proposals was set at around EUR 25 billion. This is not a sufficient investment mechanism to encourage structural reforms or reduce potential outcomes of economic downturns. This was mainly because of German politicians who were not keen on a separate EMU budget, nor on any sort of investment provision for weaker economies within the monetary union. These sorts of modest investment funds, much like stabilising loans within the EMU, were first and foremost meant to have a mobilising effect in terms of introducing austerity policy and internal structural reforms.

There were also plans to rebrand the ESM as the EMF, and yet only with a minor increase of powers given to this institution (such as restructuring debts). A heated dispute around this structural transformation related mostly to secondary issues, as seen from the perspective of the whole system: for example the question of whether the EMF is meant to be covered by EU laws and be under the influence of the European Commission. This also related to whether stabilising loans issued by the EMF are automatically supposed to involve compulsory losses for private investors involved in bonds of the country which receives support from the Fund (in the way that Greek debt was restructured with private creditors in 2012). Germany was demanding this, with opposition from the likes of the French and Italians. This could limit the interest investors have in bonds issued by the weakest states or those most vulnerable to further crises. It also deviated radically from the French idea of common debt in the EMU, something Berlin has been opposed to for some time now. A key function of the EMF was to be, in the opinion of German politicians, the stabilisation of the monetary union in case of problems and introducing structural reforms and fiscal consolidation in countries in crisis.

Another reform proposal related to the completion of the banking union. This was especially true of introduction of the European deposit guarantee schemes. Until 2018, the Germans have been opposed to this, but later they were basing their agreement to this reform on the obligation to first increase banking reserves and eliminate the problem of an excessive number of risky loans in the banking sector (Spahn 2018). These exceed EUR 750 billion in the same monetary union, and solving this problem might take many years. The ECB has toned down its position regarding this problem, including agreement to consider ways of safeguarding banks in conversations with specific institutions, instead of introducing identical rules for the whole sector. In addition, the ECB has agreed that banks can introduce appropriate financial reserves which neutralise the threatened loans only after a three year interim wait. According to specialists, the Bank was putting back the solution of this problem, something which was generally inconvenient for the stabilisation of the eurozone (Koranyi 2018). It might also strengthen the resolve of German politicians regarding further reforms in the banking union.

Berlin and Paris perspectives

Germany's conservative attitude towards reforms in the eurozone arises out of the weakening of the federal government after the 2017 elections and prolonged coalition negotiations. Chancellor Merkel had a much weaker political position than before, which was also true of parties which form the government and which have a smaller backing among the electorate, made even worse by ever stronger Euro-sceptical views of the populace. In addition, the minimalistic attitude to the EMU reforms was receiving support from the Nordic and Benelux countries which, like Germany, were backing the idea of strengthened fiscal austerity policy instead of far-reaching institutional changes, especially the creation of new transfer instruments in the monetary union (Rettman 2018b).

France and her allies from Southern Europe found themselves on the defensive in 2018 when it came to reforms in the eurozone. Even though they would have expected further changes than the ones described above, they were aware of resistance from the German side, the Nordic, the Baltic and the Benelux states. This was why they abandoned some of their ideas, including the introduction of a separate finance minister for the eurozone (Carrel 2018). The proposals which were left on the negotiating table seem rather unambitious, but even they were not guaranteed to be introduced any time soon (this was especially true of changes to the banking union).

Quantitative easing ECB – "last line of defence"

In this way, the eurozone did not appear in 2018 to be well prepared for another crisis. On the other hand, the "last line of defence" – the policy of quantitative easing by the ECB – has already been mightily over-extended during the most recent crisis. The bank purchased state and private institution bonds from the eurozone to the tune of EUR 2.6 trillion, and the ability to purchase further bonds based on current facilities was running out. What is more, one of the rather probable candidates to take over ECB's leadership from Mario Draghi in 2019 was (at the time of writing this paper in 2018) the president of the German Bundesbank Jens Weidmann, known for his criticism of quantitative easing as delivered by Draghi. Even if Weidemann turns out to be too controversial an appointment for some European states in the south, German politicians will probably push for such a personal appointment within the ECB, which will guarantee the reversal of current policies served up by this Bank in terms of quantitative easing and low interest rates (Jones, Chazan 2018: p. 3). This puts the ECB's ability to intervene in the case of another crisis in serious doubt.

At the same time, economists were predicting a gradual strengthening of the euro in the coming months, which could weaken economic growth in the eurozone (Ranasinghe, Carvalho 2018). Then again, the victory of euro-sceptic parties in the Italian elections of 2018, the likelihood of the formation of an Italian government which would be unwilling to consider budgetary cuts and structural reforms, and was even considering the introduction of a national currency parallel to the euro – could once again destabilise the situation in the eurozone. This was all the more true seeing as – as admitted by the European Commission itself – the Italian economy at the start of 2018 was the one most at risk across the whole of the EU (*2018 European Semester*… 2018). All of this should decrease enthusiasm of Poles to hurry in their application to join the

EMU. Indeed, a large part of experts and majority of the population did not want to enter the euro area (Kantar TNS 2017).

Predictions for immediate and long-term (strategic) reforms in the eurozone

Summary of Euro area state of affairs in 2018

Having outlined all these facts, let us summarise the situation in 2018. The euro area entered a state of existential crisis in 2010, one which dragged on for seven years in the case of some countries. An example is Greece and Italy, which for many years yet to come will not make up their losses and will not return to the level of development they enjoyed before the crisis. Both during the crisis and once it had calmed down there was a failure to introduce sufficient reforms, which would fully secure the area before another crisis. According to Wolfgang Münchau, the monetary union didn't have a sufficiently strong management infrastructure, which means that it remained internally vulnerable to further shocks (Münchau 2018a: p. 9). In his opinion Greek and Italian debt were less sustainable in 2018 than they were in 2010 when the crisis began, and Germany was less willing to support the eurozone at the year-end of 2018 (Münchau 2018c: p. 9). The prime minister of Portugal was of the same opinion, voiced during his speech at the European Parliament in March of 2018, when he claimed the stability of the EMU in the coming years was highly risky as a result of structural weaknesses and institutional incompleteness (Nielsen 2018). The French finance minister also admitted that the euro area was not ready for another crisis (Reuters 2018). The reforms discussed in 2018 were still half-baked and did not guarantee complete security for the monetary union.

What is worse however, the EMU is a lastingly asymmetric regime, which means that it accumulates benefits for some and incurs costs for other member states (Mody 2018: p. 391–397, 424, 434). There are no appropriate institutions which would balance the macroeconomic disproportions between the wealthier, competitive countries and those which are weaker. This already has its geopolitical consequences, the most important of which is the rising might of Germany and a weakening of the role of southern European states, as well as the ever-stronger inequality of the economic potential between Germany and France.

Short-term perspectives

Reforms in the eurozone have their short and long term perspectives. The former is defined by the Brexit timelines, elections to the European Parliament and then the new team within the European Commission in 2019. Not many politicians were in the mood to campaign for far-reaching reforms in 2018, mainly because the economic situation in the EMU had improved. At the same time, a few countries which have a lot of say in the decisions mentioned here had experienced a worsening of internal political climates, which had reduced their potential for compromise. This was especially true of Germany, and the profoundly weakened position of chancellor Merkel along with her coalition team. These are the reasons why the reforms which could be agreed upon by 2019 will probably only encompass the establishment of, a moderate investment line for the eurozone in the subsequent EU Multiannual Financial Framework and a limited change of the banking union.

All these actions will not fully reduce the eurozone disfunctionality, especially in terms of deficits in investment and pro-growth policies. The ESM will not for now be financially ready to support any large member states threatened with insolvency, such as Italy. There is no certainty in securing the banking sector and it will probably depend still on the monetary policies of the ECB, as well as support for endangered banks from the budgets of member states. In the case of further turbulences within the global financial systems, this runs the risk of another rapid rise in public debt within the eurozone, which is currently much larger than before the most recent crisis. There was no discussion in 2018 between member states about social transfers which could stabilise shocks relating to economic downturns or crises (except for Scholz's proposal regarding short-term loans for these purposes). Nor was there any negotiation covering redistribution instruments which minimise macroeconomic imbalances between individual members of the EMU. The existing tools for monitoring the macroeconomic situation in individual countries included in the European Semester, which shift responsibility for these adjustments to individual states, do not solve the problem of structural asymmetry within the monetary union.

A solution to the reduction of macroeconomic differences could be the introduction of common eurozone debt, especially with the intention of diverting resources towards investments which increase competitiveness in the weakest states. And yet, German politicians were adamantly against this, while experts and economists from Germany blamed the ECB for taking steps which actually had the same effect as the introduction of common eurozone debt (Sinn 2014).

Long-term perspectives

Considering the long-term perspectives of reforms within the EMU (up until 2025, as the Commission suggests), we can actually indicate various propositions, intended to strengthen the eurozone economically and politically. And yet, we do not know if they will be accepted and eventually introduced.

There is a lot of resistance to redistributive instruments, including those which stimulate growth in weaker countries. These are also the reasons why there is no desire to establish a ministry and minister of finance in the eurozone. We do not know, in this case, what such a minister would be responsible for – would this involve redistributive transfers within the monetary union, or merely increasing budgetary discipline among member states? Certain proposals could even make it harder to increase competitiveness for the weaker economies, such as those connected with a drive towards the introduction of harmonised tax rates, minimum social standards and in labour regulation. They could also increase public debt. Further controversies are caused by the idea of common eurozone debt, while some proposals (such as sovereign bond-backed securities) seem to increase rather than decrease the risk to financial systems. It will be very difficult to introduce a common representation of the eurozone within international organisations (e.g. IMF).

It is even harder to eradicate the democratic deficit within the EMU. For years, we have seen an increasing tendency to limit the fiscal competencies of national parliaments without appropriate strengthening of parliamentary representation on the EU level within these budgetary powers. The introduction of a separate parliament for the monetary union without handing over of solid competencies in terms of budgetary policies will not solve the problems covered here. Meanwhile, such a transfer of power in terms of supervision of fiscal policy from the national to the European level causes great controversy among national politicians.

Geopolitical perspectives and main decisional dilemmas for Poland

The main argument for proponents of Poland to quickly join the eurozone was in 2018, most of all, geopolitical (*Przyjęcie euro*... 2018). This approach surpassed all potential risks and economic dilemmas. The geopolitical benefits to the state in relation to membership of the EMU depend above all on a closer connection between Poland and the West, and especially Western Europe and the core of the European Union. This approach was talking about including Poland in the heart of the Union, especially in light of the worrying idea of divisions within the Union along the lines of a "two-speed Europe", resulting in ever-stronger bonds between existing members of the eurozone, while other members of the EU suffer increased risk of political marginalisation. Finally, this was to be a specific sort of protection against the rising geopolitical tension between the West and Russia. Such motives for joining the eurozone was a decision made by the Baltic states which, still in the time of crisis within the euro area, adopted the European currency. It was to bind these countries more tightly, in a geopolitical sense, with the West and make it harder for Russia to interfere with the former Soviet Union states.

In relation to this argumentation, we have to keep in mind that the EMU is not a defence arrangement. The basic responsibility for the defence of European states from any possible aggression from Russia is down to NATO. Even the Common Security and Defence Policy (CSDP) within the EU do not guarantee this sort of protection. The European Union has neither the necessary potential nor infrastructure, as well as being unable to (in the foreseeable future) replace NATO in terms of helping member states honour their mutual allied commitments, similar to those which came out of Article 5 of the North Atlantic Treaty.

We must also take into account that we were experiencing some serious geopolitical changes around the world in 2018. What we were observing included an increasingly assertive stance by Russia in relation to NATO and the West, as well as more and more divergent policies between the USA and some EU states, along with intense statements from many prominent politicians in Western Europe encouraging an easing of the conflict with Russia and lifting of the sanctions imposed as punishment for its actions in Ukraine. In some way, this undermined the veracity of allied commitments in many Western European states should we experience a worsening of the crisis in relations with Russia, both in terms of NATO as well as – even more so – in the EU. This also weakened the argument which suggests that entering the monetary union increases the chance of protection from the risk of open conflict between any given EU member state and Russia.

Taking into consideration the increasing divergence between, on the one hand, France and Germany and – on the other – the USA, the point about becoming closer to the West is not all that accurate. The West has entered a period of increasing divisions, which could deepen in the coming years. Both the USA and the UK are to move away from continental Europe and especially away from leaders championing European integration, by which we mean the French-German tandem. These are the very causes why Paris and Berlin have exerted pressure concerning progress with the CSDP, understood as a search for a strategic autonomy with regards to NATO and the US. It is also worth noting that Brexit made this accelerated integration process possible, seeing as the UK for many years has resisted this sort of approach to the defence policy in the EU. Remaining outside the eurozone will probably help maintain, or even deepen, the close relations between Poland and the US/UK. Meanwhile, entering the euro area would mean being more closely tied to the centre of European integration, shaped more and more by the strategic interests of both Germany and France.

In this way, I am now approaching the question of a "two-speed Europe" threat to further integration. The aforementioned process is slowly increasing as more and more reforms are introduced into the eurozone. Nevertheless, it is worth remembering that the most far-reaching changes, which could deepen the phenomenon of a "two-speed Europe", will not be introduced in the coming years. I am thinking of a separate budget, parliament or finance minister for the EMU. German policies are, by and large, responsible for this, seeing as for a long time they have now been trying to resist the process of segmentation within the EU (Grosse 2018: p. 9–24). In spite of this, the monetary union takes on geopolitical meaning in terms of integration processes, and countries choosing to remain outside the EMU can be increasingly marginalised, especially following Brexit. And yet, entering the eurozone does not automatically guarantee a stronger political position in Europe, while maybe paradoxically weakening it somewhat.

Getting closer to the centre of the EU does not necessarily mean an increase in influence when it comes to political decisions being made in the EU or in the euro area. There are many countries within this area which, as a result of decrease in their economic potential during the crisis, lost their earlier influence in the strategic decisions concerning European integration. This includes Italy, which has – for many years now – had a radically reduced influence on EU policies, which also includes the key decisions regarding the EMU. As commented upon by one of the observers of the relations within the monetary union, Italy has for years only been of interest to France and Germany when dangerous turbulences within the country threaten the stability of the euro (Taylor 2018). It turns out that the basis for geopolitical influence of any country in Europe is largely dependent on its economic potential (Grosse 2014b). This can be seen in the example of Germany, a country which is an economic powerhouse, even though its military might is relatively poor. It does not have any nuclear weapons, nor any serious army resources, nor is it a permanent member of the UN Security Council. In spite of all that, it continues to play the leading role in current integration processes within Europe. Membership of the eurozone can therefore increase economic benefits, and at the same time geopolitical influence in the region and globally, or else quite the opposite – it can have economic and social impacts which are negative, and at the same time cause a depreciation of the geopolitical potential of a given country.

This means that calculating the economic questions of joining the monetary union is of primary concern not only in the light of potential economic benefits or costs. It also has direct geopolitical consequences. The weaker members of the monetary union are not only losing influence on the international scene, they are also more and more dependent on aid from stronger members of the union. They are thus becoming less and less autonomous with regards to the political centre of the EMU in many – economic and non-economic – senses regarding European and global politics.

Conclusions

Two fundamental questions were considered in the article. Should only the external geopolitical conditions, such as the threat posed by Russia or the risk of deepening the "two-speed Europe" process, be the basis for entry into the EMU? Or should we also take into account the internal circumstances in the EMU, and especially whether the institutional incompleteness of the monetary union or the economic unreadiness of the accession country will not have negative geopolitical consequences? The main conclusion resulting from my analysis is that the decision to enter or remain outside the euro area is not only economic, but also geopolitical. Membership in the EMU brings about not only economic and social benefits or costs for individual member states, but it may also have geopolitical profits or damage. The basic problem of the EMU is that it is a lastingly asymmetrical regime, which means that it unevenly distributes economic and geopolitical benefits or costs among member states. Another problem is that reforms in the euro area will probably not eliminate this asymmetry in the coming years, nor will they protect the EMU against a possible next crisis or even worsening of the economic situation in Europe.

In order to enter the EMU, Poland should have a healthy economy, one which is far more structurally ready for such membership than, say, that of Italy. Otherwise the monetary union will quickly become a mechanism for economic and political dependency between Poland and the more competitive states within Western Europe. Holding back on the decision to join the EMU will make it possible to protect Poland from economic risks, which could easily turn geopolitical. During the most recent crisis, Poland remained a "green isle" of resilience within Europe, and currently – even though it remains outside the EMU – is one of the most attractive countries for international investment (*2018 Best Countries*… 2018). Therefore, remaining outside the eurozone for now creates more opportunities for building a competitive economy, both in the common market, as well as external markets. Hence, it is a chance for Poland to advance geopolitically, though nothing can guarantee successful outcomes. This depends on many other factors, including government strategy related to Poland's development and a robust policy for creating an innovative and competitive national economy.

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