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Article

"Stabilizing the European Monetary Union: High time for more reforms!": Seven questions to Ferdinand Fichtner

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Dr. Ferdinand Fichtner, Head of the Department of Forecasting and Economic Policy at DIW Berlin

SEVEN QUESTIONS TO FERDINAND FICHTNER

»Stabilizing the European Monetary Union: High Time for More Reforms!«

1. Dr. Fichtner, what is the current state of the economy in the euro area? Has the crisis bottomed out? The economic situation in the euro area appears to have stabilized. In the euro area as a whole, we are seeing positive growth rates more or less across the board and, importantly, the economies of the crisis countries are also more stable.
2. Have the root causes of the crisis been resolved now? Although there has been an upturn in economic development, this is just a temporary lull in the crisis. Recently, the financial markets, too, have been calmer. However, this is primarily due to stabilizing interventions by the European Central Bank and the rescue packages.
3. Do the stabilization mechanisms need to be restructured? The stabilizing measures implemented in the past successfully stopped the acute crisis in its tracks. However, these mechanisms will not prevent a recurrence of the same imbalances and problems we experienced before. With this in mind, it is high time for us to take advantage of today's favorable economic circumstances to shape the institutional foundations of the Monetary Union so as to prevent new imbalances and therefore new crises developing, if at all possible.
4. Does the European Monetary Union need a completely new institutional basis? A complete restructuring of the Monetary Union is not necessary but certain essential additional elements are required to stabilize it. Adjustments need to be made in certain key areas in order to secure stability.
5. What structural reforms would be necessary to make the European Monetary Union less vulnerable to crises? The euro crisis is essentially a three-part problem that mani-

festated itself to varying degrees in the financial markets, the real economy, and public finances. The key features, however, were the significant interactions between these three crises. It is essential that we put an end to these reciprocal effects as soon as possible. This is the central tenet of the present issue of DIW Economic Bulletin. It includes, for example, isolating public finances from the situation on the financial markets and also making the real economy less susceptible to public debt.

6. What risks do you think would result from a failure to implement these reforms? If the institutional changes we propose are not implemented, the crisis will continue to endanger the Monetary Union. This could ultimately result in its collapse, which would have massive cost implications for all member states but particularly for Germany. Dissolution of the Monetary Union would also signify the end of the European integration process, thereby laying to rest one of the most politically important projects of the century.
7. How long will it take before we can really put the crisis behind us? The reforms we propose are ultimately very different in nature. Some can be implemented relatively rapidly. For instance, it would only take a few quick policy adjustments to improve conditions for migration within the Monetary Union. On the other hand, the introduction of a common European unemployment insurance would evidently be a project with a much longer timeframe of ten years or more. In light of this, there is no "one-size-fits-all" solution. What is clear is that it will be a drawn-out process relying on the long-term support of the population to advance this process of integration. But now would be a very good time to start.

Interview by Erich Wittenberg.

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