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Article

"There are many analogies between the GDR in 1990 and Greece today": Four questions to Marcel Fratzscher

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FOUR QUESTIONS TO MARCEL FRATZSCHER

»There Are Many Analogies Between the GDR in 1990 and Greece Today«

1. Professor Fratzscher, German monetary union came into force 25 years ago on July 1, 1990. On the same day, capital controls in Europe were removed, laying the foundations for a European monetary union and the euro. What lessons can Europe learn from the German monetary union? In 1990, there was considerable criticism because German monetary union was implemented so rapidly. In hindsight, I think that this was the right step to take as, ultimately, a common currency in the form of the D-Mark was a key prerequisite for establishing new industries and maintaining and creating employment, and therefore crucial for the integration of East Germany. This is one of the lessons learned from the German experience: a common currency can provide not only stability and growth, but it is also an important stimulus for deeper integration. Second, it was also essential to complete this process of integration quickly. Even today, in Europe, we continue to debate whether important reforms should be implemented swiftly or carried out gradually over a period of many years. With the former East Germany, rapid implementation was a success. Within the first ten years, eastern Germany gained considerable ground and income per capita rapidly grew to 82 percent of the western German level. The third lesson is that regional differences are inherent in a monetary union. There are significant disparities between the individual member states of the European monetary union and, despite Germany's strong common currency in the 1990s, there were also massive differences, not only between eastern and western Germany, but also between the north and south of the country.
2. Was or is the euro the pacesetter for European integration? To a certain extent, the euro is a product of the process of integration which began very slowly in Europe in the 1950s. The euro continued this process. In Europe, we now have a banking union and joint supervision of major banks. This would not have been possible without the euro. The banking union brought considerable advantages in its wake, as did other measures resulting from the introduction of the euro, such as the harmonization of industrial standards. The euro has brought numerous benefits for many countries, not least for Germany. So the answer is that the euro is both a product and a driver of integration. Clearly, it is not possible to have a common currency at the beginning of every process of integration but a common currency can provide added impetus and have extremely important economic benefits.
3. Ultimately, East Germany's economy had no chance of surviving. Can we draw parallels with Greece? There are many interesting parallels between the GDR in 1990 and Greece today. These two countries have or had no functional institutions; nor were their economic structures capable of surviving long term. Interestingly, another similarity is that, in the past, politicians made significant promises to the population which were impossible to keep. In East Germany, at the time, we pledged "blossoming landscapes" but it took substantially longer before the promise of such economic prosperity was actually fulfilled. The Greek government is doing exactly the same today by pledging the world yet, at the same time, knowing that such promises are impossible to keep.
4. What does Europe have to do to stabilize the monetary union? Europe does not need a political union but we do need reforms in various areas: first, the completion of the banking union including the joint supervision of banks. We still have some way to go here. Second, we need a capital market union so that, for example, it becomes easier for German banks to lend abroad and German companies to invest in other countries. Third, structural policy needs to be aligned with a view to securing a certain level of competitiveness for all countries. Fourth, we need a fiscal union that consists of joint binding rules to ensure that, when it comes to spending policy, all member states behave in a manner that does not impact negatively on their neighbors.

Interview by Erich Wittenberg



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