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Article

"Harmonizing Europe's business cycles at no additional cost": Six questions to Ferdinand Fichtner

DIW Economic Bulletin

Provided in Cooperation with:

German Institute for Economic Research (DIW Berlin)

Suggested Citation: Fichtner, Ferdinand; Wittenberg, Erich (2013) : "Harmonizing Europe's business cycles at no additional cost": Six questions to Ferdinand Fichtner, DIW Economic Bulletin, ISSN 2192-7219, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin, Vol. 3, Iss. 1, pp. 15-

This Version is available at:

<https://hdl.handle.net/10419/69294>

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

SIX QUESTIONS TO FERDINAND FICHTNER

»Harmonizing Europe's business cycles at no additional cost«

1. Mr. Fichtner, in order to reduce the cyclical differences among EU member states and inside the euro area, you are proposing transfer systems, such as a joint unemployment insurance scheme for the euro area. What is the idea behind it? *The idea is to balance out disparities between countries in the euro area with an automated transfer system. We propose introducing a transfer system, for example, a European unemployment insurance scheme. This would lead to automatic financial flows between booming economies and countries in recession.*
2. Would a European unemployment insurance scheme not lead to permanent transfers from the EU's rich countries to its countries in crisis? *In our concept for a European unemployment insurance scheme, participants would only be eligible for a maximum of one year. Every unemployed person who had not yet returned to work after one year would be automatically excluded from this unemployment insurance. This would keep permanent transfers between countries to a minimum. But it cannot be fully excluded because there are countries where short-term unemployment is structurally higher, for instance, with seasonal work in the tourism industry. However, this could also be prevented by additional adjustments to our system.*
3. Do you think the regulations governing the duration recipients are allowed to draw benefits should be synchronized throughout Europe? *The unemployment insurance system we are proposing is only intended to provide basic coverage. If this level of coverage is not sufficient for national governments, they can establish additional coverage and thereby increase the benefit period or the amounts their citizens receive. There will,*

however, be certain uniform requirements which are not as high as they may first seem.

4. Do we need a European employment agency? *No, a European employment agency would not be necessary because each country's social security systems will still be in use. This means that, in Germany, the Federal Employment Agency would continue to be responsible for contributions and payouts and for refinancing some of the European fund.*
5. What additional expenses would be incurred by Europe's workers and employers? *The total burden would remain the same, as long as the payments from this European unemployment insurance were still comparable with benefits paid by national unemployment insurance. And that would be the case with our concept.*
6. Would a European unemployment insurance scheme not reduce incentives for governments to employ measures to consistently reduce unemployment? *It is possible that a European unemployment insurance scheme of this kind would disincentivize national governments from trying to reduce unemployment because, ultimately, someone else is paying for it. But since we have restricted unemployment benefits to one year, in our view, there is no real disincentive because structural and long-term unemployment is the area where national governments have the biggest impact. There is not so much political scope for adjustments in short-term unemployment. Politicians generally use the reduction of unemployment for political gain. For example, employment programs appear to reduce short-term unemployment but do not really lead to any lasting changes to the labor market situation.*

Interview by Erich Wittenberg.

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Volume 3, No 1
4 January, 2013
ISSN 2192-7219

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