

Europe needs an encompassing solution, no short-term fix

Abstract:

For the last three years, the German Council of Economic Experts (GCEE) has analyzed the crisis in the Euro Area, and devised avenues for its solution. In its annual report for the year 2010, it suggested a concept of “three pillars for stability” as a viable framework for the long-term governance of the Euro Area. A year later it proposed the idea of a “European Redemption Pact” as a fiscal bridge into the future, and it worked out this concept in more detail in a special report in the summer of 2012. Resting on these foundations, in its most recent annual report the GCEE completed the detailed elaboration of its comprehensive solution concept by an extensive discussion of a European banking union in its possible role as a vital element of a sustainable governance structure for the Euro Area, but also outlined a workable transition path towards this long-term structure. In all these contributions three principles have guided the considerations of the GCEE:

- Systemic problems require integrated solutions: The crisis of the Euro Area is an amalgamation of three problem areas which are entangled with one another in a vicious circle of sorts – a sovereign debt crisis, a banking crisis, and a macroeconomic crisis. Together, they have led to a serious crisis of confidence in the integrity of the Euro Area. Consequently, a solution concept must be comprehensive.
- Liability and control must be closely aligned with one another: By contrast to the original framework of the Euro Area, its future governance must adhere to one ironclad principle, the proper alignment of liability and control. Considerations regarding the choice between joint and sovereign liability pertain to both, the fiscal realm and the governance of financial markets. And the ideal choice of liability-control-alignment might well be different in these two areas.
- A comprehensive solution concept needs to include a viable transition path: All considerations regarding this long-term structure pertain to a distant future, perhaps some decades hence. But currently the principal problem is implementation, instead.