Fiscal Stance, Macroeconomic Stability, Growth*

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I. Fiscal stance (the state of the Public Finance)

I.1 Conventional Measures

Spending ⟶ Taxes ⟶ Deficit (surplus) ⟶ Explicit Public Debt

Spending is the key driver; especially the social transfers

Figure 1. General government spending as % of GDP

	1913	1920	1937	1960	1980	1990	2000	2007
France	17,0	27,6	29,0	34,6	46,1	49,8	51,6	52,3
Germany	14,8	25,0	34,1	32,4	47,9	45,1	45,1	43,6
Italy	17,1	30,1	31,1	30,1	42,1	53,4	46,2	47,9
UK	12,7	26,2	30,0	32,2	43,0	39,9	39,0	44,2
USA	7,5	12,1	19,7	27,0	31,4	32,8	34,5	36,6

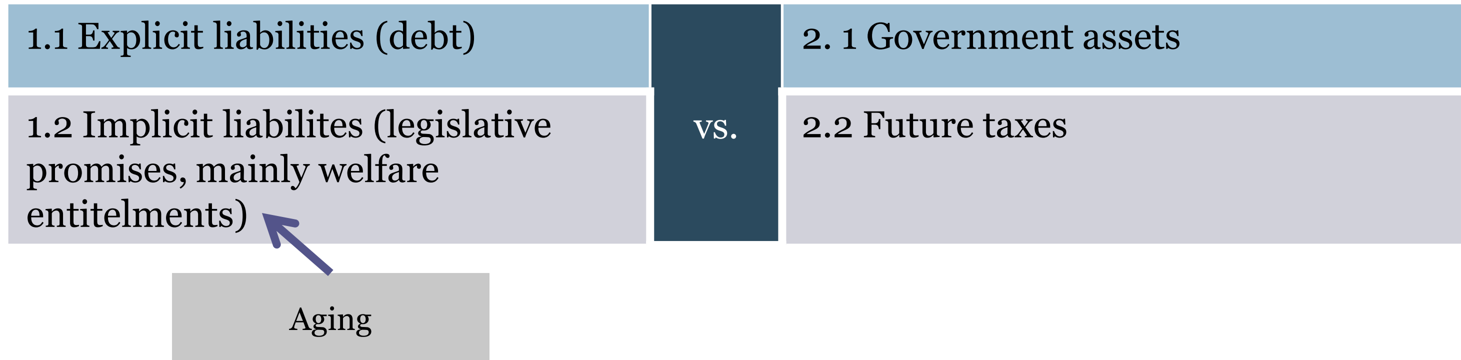
Source: Tanzi V., Schuknecht L. (2000), Public spending in 20th century, Cambridge University Press ; World Economic Database

Figure 2. Social spending (in-kind and in-cash spending) as % of GDP

	1913	1920	1937	1960	1980	1990	2000	2007
France		1,2	3,7	13,7	26,1	29,3	32,0	32,0
Germany				21,1	30,4	27,6	31,8	28,9
Italy		2,2	3,3	16,4	25,4	28,4	29,6	31,5*
UK		7,1	10,5	15,3	22,9	24,7	26,3	29,9
USA			8,6	9,7	18,1	18,4	19,6	21,4

Source: Master theses on welfare state dynamics by: Magda Ciżkowicz, Jarosław Kantorowicz,Piotr Pękała, Wiktor Rak , Seweryn Szwarocki

I.2. Conventional measures do no give the full picture of the public finance as they omit the implicit liabilities (debt)



In practically all developed countries there is a large imbalance between the present value of 1.1, 1.2 and that of 2.1, 2.2

What are the options (good and bad):

1. Privatise the state assets to reduce the explicit public debt
2. Introduce reforms which would:
   - Reduce implicit liabilites (reforms of the welfare state)
   - Strenghten the economic growth
3. Increasing taxes – counterproductive as tax/GDP ratios are already at the high levels and further substantial increases would hurt growth
4. Reduce the explicit liabilities:
   - In a explicit way (debt restructuring)
   - In a hidden way (inflation)- can apply only to the debt denominated in a country's currency

I.3. Two Types of Bad Fiscal Stance

1. Public Finance as a Systematic Brake on Growth

2. Public Finance as a Source of Growth Breakdowns (crises)

II. Public Finance as a Systematic Brake on Growth (the effects of a large and badly structured Welfare State-WS)

The effects of the Welfare State Ews = E (WS; E)

- As the WS is a complex institutional variable, the effects depend on the state of this variable i.e. the size and structure of the WS. Remember the structure influences the size.

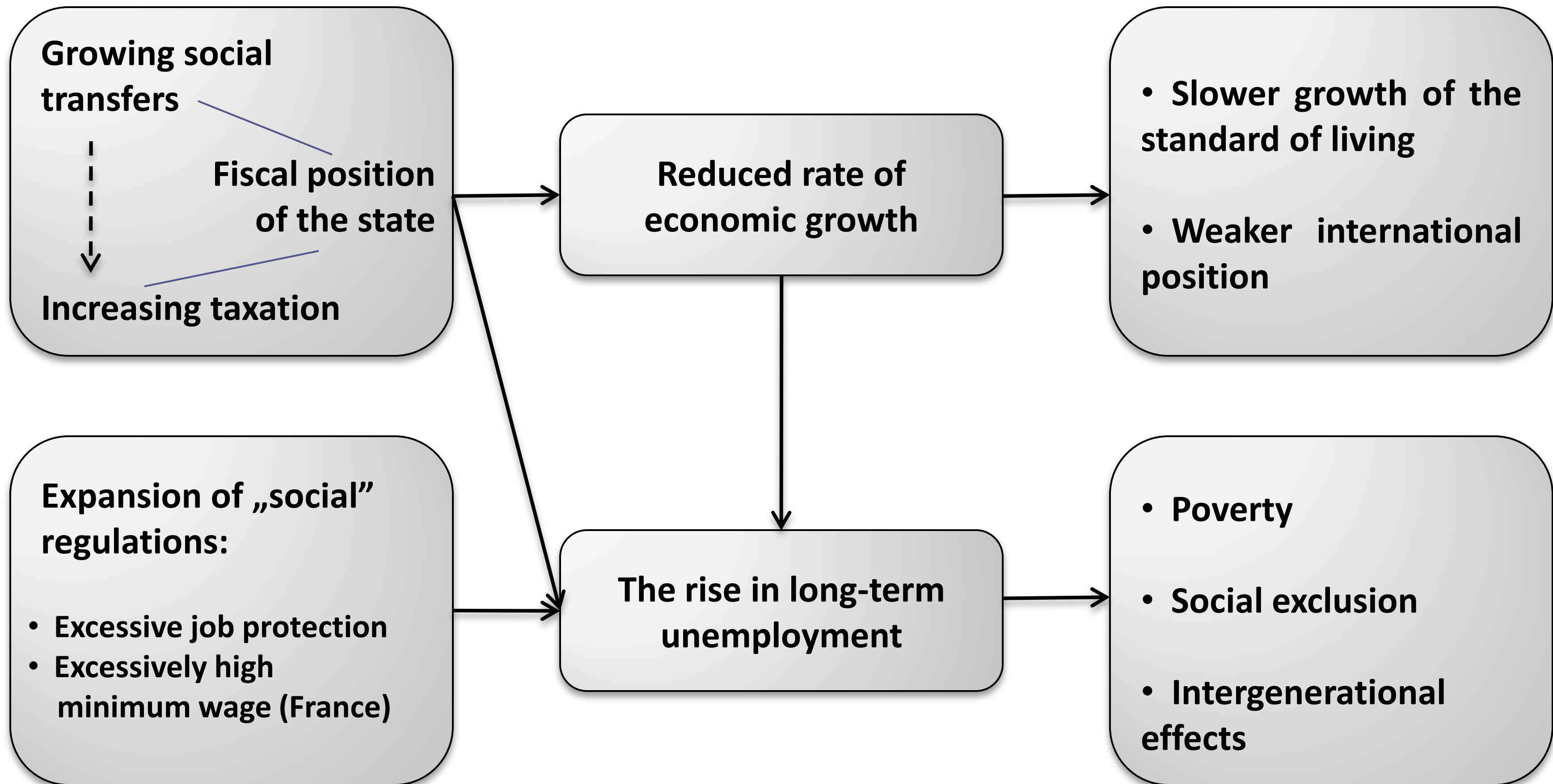
- Effects also depend on the environment, in which the WS operates e.g. the Danish model transferred into the US would produce much higher unemployment than in Denmark because of faster growth of labour supply in the US. Models should be compared for the same conditions.

- Four mechanisms related to large and badly structured WS:

1) distorting the individual's incentives and, as a result, behavior (e.g.propensity to work, to search for a job, to save);
2) the distorted behavior leads to a reduction in the capacity to work (hysteresis);
3) massively distorted behavior - change in the social norms (e.g. the work ethics, the cohesion of the family); (Lindbeck, A., 2003)
4) the expansion of the WS crowds out actual or potential forms of non-state social assistance and of mutual aid (see later).

- As a result of crowding out, larger WS are accompanied by smaller doses of non-state mechanisms (both of market and of non-market type) than smaller WS. Effects of larger WS include these displacement effects.

Figure 3. The analytical scheme



Other consequences of large and badly structured Welfare States

- **Increasing inequalities**

1) The victims of the average high structural unemployment are young people and women (OECD).
2) Strong job protection produces the division into privileged “insiders” and discriminated “outsiders”; dual labour market.
3) Social transfers in many countries, especially of the Third World, are regressive.

- **The misuse of social transfers**

– Sweden: sickness benefits:
1955: 12 days/person/year
2001: 32 days/person/year
– Germany - “Sozialbetrug”

- **Strong tax progression**

– Weakening the incentives to work more.
– Stimulating the growth of the second economy and/or weakening the division of work in society (expensive services).

Expansion of the Welfare State has crowded out the actual or potential forms of non-state social assistance and mutual aid

- **Britain**

– friendly societies (mutual aid associations)

1877: 2.8 million members
1897: 4.8 million members
1910: 6.6 million members

– strong crowding out since 1948 (Green, P., 1988)

– spending on education

1833: 1% national income
1920: 0.7% national income (West, E., 1991)

- **The US**

-the reduction in public social spending at the end of 19th century has been accompanied by the increase in the non-state arrangements.

-1 percentage increase in per capita federal social spending on education, health care and public assistance in years 1950-1970, led to reduction of private charitable contributions by 0,28 percent (Roberts, R.D. , 1984).

- public assistance transfers, unemployment insurace benefits, workers compensation payments, as well as social insurance benefits crowd out private interhousehold transfers of money and time (Lam, D., Schoeni, R., 1993).

Social transfers, Labor Supply, Household Savings

Conclusions: Public social transfers have distortionary effects on economic behaviors of individuals. Social benefits distort incentives to work: an increase in generosity and eligibility duration results in reduction of labor supply. Moreover public social spending affects savings behaviors of households.

Giovanni Mastrobuoni, 2006, Labor Supply Effects of the Recent Social Security Benefit Cuts: Empirical Estimates Using Cohort Discontinuities, Princeton University CEPS Working Paper No. 136
This paper studies the effect of U.S. Congress decision to increase Normal Retirement Age by 2 months annually on retirement behaviors. The analysis of behaviors of 3 cohorts: 1938, 1939 and 1940 indicates that mean retirement age of affected individuals has increased by half of the growth in the NRA.

Engelhardt, Gary V.; Kumar, Anil. 2009. "The Repeal of the Retirement Earnings Test and the Labor Supply of Older Men." Journal of Pension Economics and Finance 1-22.
This paper examines the impact of abolishment of the Social Security retirement earnings test for those aged 65-69, on the labor supply of older men. Based on the data from the 1996-2004 waves of the Health and Retirement Study, the model results indicates, that repeal of the earnings test increased labor supply by 12-17%

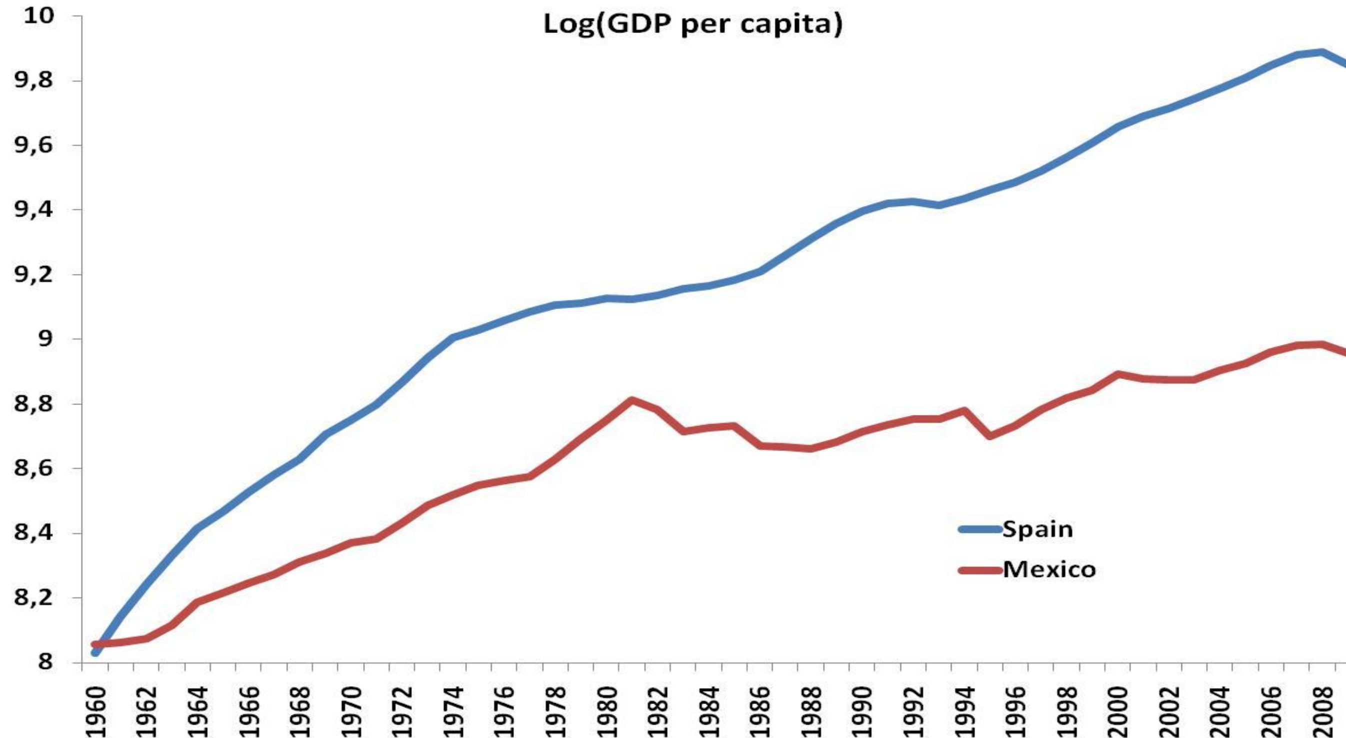
Neumark, David and Elizabeth T. Powers. 2005, "The Effects Of Changes In State SSI Supplements On Preretirement Labor Supply," Public Finance Review, v33(1,Jan), 3-35.
This research analyses the relation between generosity of SSI social benefits and labor supply of its likely participants aged 62-64. Considering, that SSI benefits are means-tested, those individuals close to margin of eligibility face incentive to reduce income and hence labor supply. The analysis shows that increase in SSI benefit by $100 a month results in reduction of labor supply by approximately 3%

Caliendo, Marco & Tatsiramos, Konstantinos & Uhlendorff, Arne, 2009. "Benefit Duration, Unemployment Duration and Job Match Quality: A Regression-Discontinuity Approach," IZA Discussion Papers 4670, Institute for the Study of Labor (IZA).
This study analyses the relation between unemployment benefit eligibility duration and mean unemployment duration. The empirical research is based on the sharp discontinuity of maximum unemployment benefit duration in Germany, which increases from 12 to 18 months for employees aged 45. The analysis indicates, that there is a spike in the unemployment exit rate at the point when benefits are no longer available. As a consequence, extended unemployment benefits result in increase in mean unemployment duration.

Krueger, A., Meyer, B. (2002), Labor supply effects of social insurance, published in: A. J. Auerbach & M. Feldstein (ed.) Handbook of Public Economics, , chapter 33
In the review of literature regarding unemployment insurance effect on labor market, Krueger and Meyer (2002) conclude that overall empirical studies support the thesis of negative relation between benefits level and number of unemployment claims. The elasticity of unemployment with respect to replacement ratio is estimated to be "in the neighborhood of 0.5". The influence of benefit level on unemployment duration is also confirmed. In this case the rough approximation of elasticity is also 0.5, yet the estimates found in different studies are more scattered.

III. Crises which include the Fiscal Distress

III.1 The impact of the crises on long-term growth can be huge but it has been largely ignored in the economic literature while



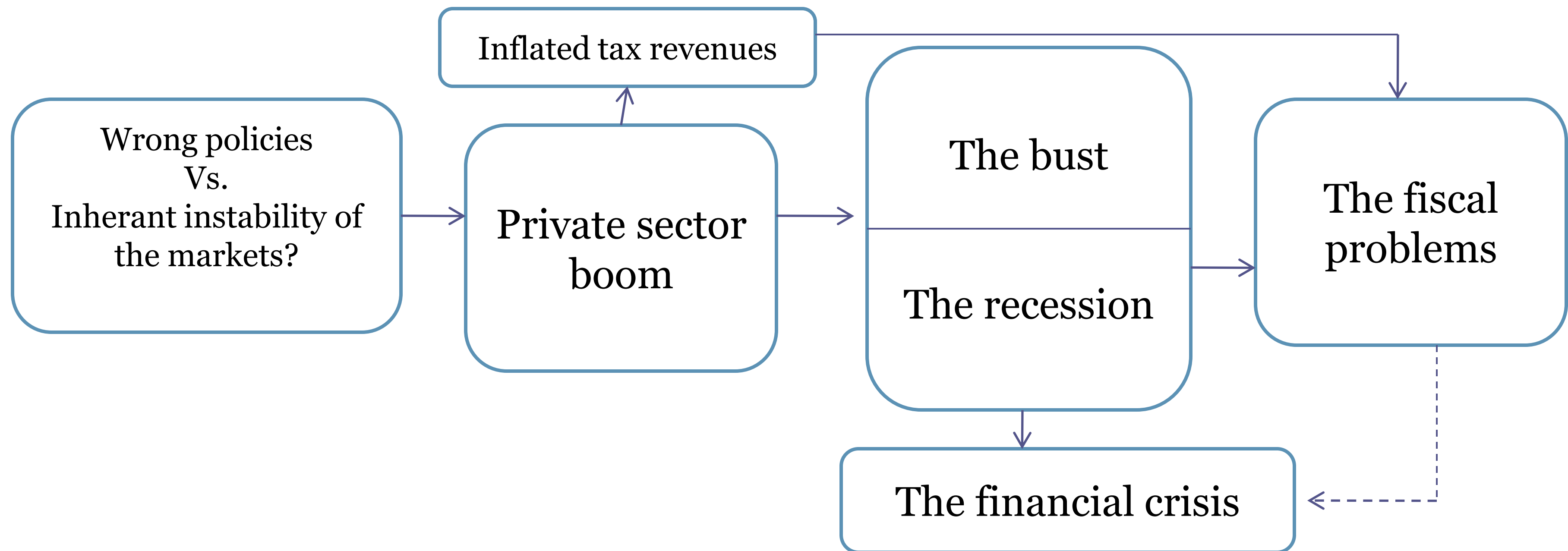
1960-1971 Spain was growing faster than Mexico due to trade liberalization and FDI inflow
1972-2008 the main source of divergence were economic crises in Mexico in 1982, 1986 and to lesser extend in 1995 caused by expansionary monetary policy, growing external indebtedness, peso overvaluation and poor banking supervision

GDP per capita in 1990 US$ (converted at Geary Khamis PPPs)
Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2009,
L. Balcerowicz, A. Rzońca, „The Puzzles of Economic Growth. The Propelling Forces and the Crises: the Comparative Analysis", 2010

III. 2. Two types of crises which include the fiscal cirses (Sovereign Debt Distress)

1. The financial (banking) crisis → fiscal crisis
2. The fiscal crisis → the financial (banking) crisis

Figure 4. The dynamics of the Financial-Fiscal Crisis



		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Household loans to GDP	Ireland	49,62%	54,79%	62,59%	72,70%	85,99%	94,41%	101,70%	112,55%	123,28%	118,89%
	Spain	48,14%	52,08%	57,61%	64,41%	71,87%	79,22%	83,24%	83,92%	86,43%	85,69%
	United Kingdom	74,89%	76,15%	82,73%	87,53%	92,55%	98,34%	92,81%	84,45%	103,68%	99,16%
Property price index	Ireland	60,6	64,9	74,1	82,4	88,5	100,5	100,0	90,9	78,5	66,3
	Spain	47,0	54,4	64,0	75,2	85,6	94,6	100,0	100,7	93,2	89,6
	United Kingdom	50,3	63,0	72,8	82,9	85,6	93,5	100,0	85,3	88,1	88,6

Source: Eurostat, ECB, Nationwide

III.3. Policies which contribute to financial crises

My reading of the empirical literature on the causes of the financial crises leads me to the following list of policies which contribute to the financial crises:

1. Politicized (or state-directed) credit allocation: it is usually driven by political considerations which dominate the economic risk assessment and, thus, leads to large banking losses and/or to Sovereign debt distress. The activity of Fannie May and Freddie Mac in the US is the recent example.

2. Persistently expansionary fiscal policy: it contributes to spending booms and may also result in the banking losses and in the public debt problems.

3. Monetary policy which occasionally leans "with the wind", i.e. fuels asset bubbles (Fed's policy in the 2000s being the main recent example). It has been linked to a doctrine of monetary policy which narrows its goal to the short-term CPJ inflation, and excludes from its purview asset price developments and the related factors (e.g. the growth of monetary and credit aggregates).

4. Tax regulations which favour debt financing relative to equity finance.

5. Subsidies to mortgage borrowing.

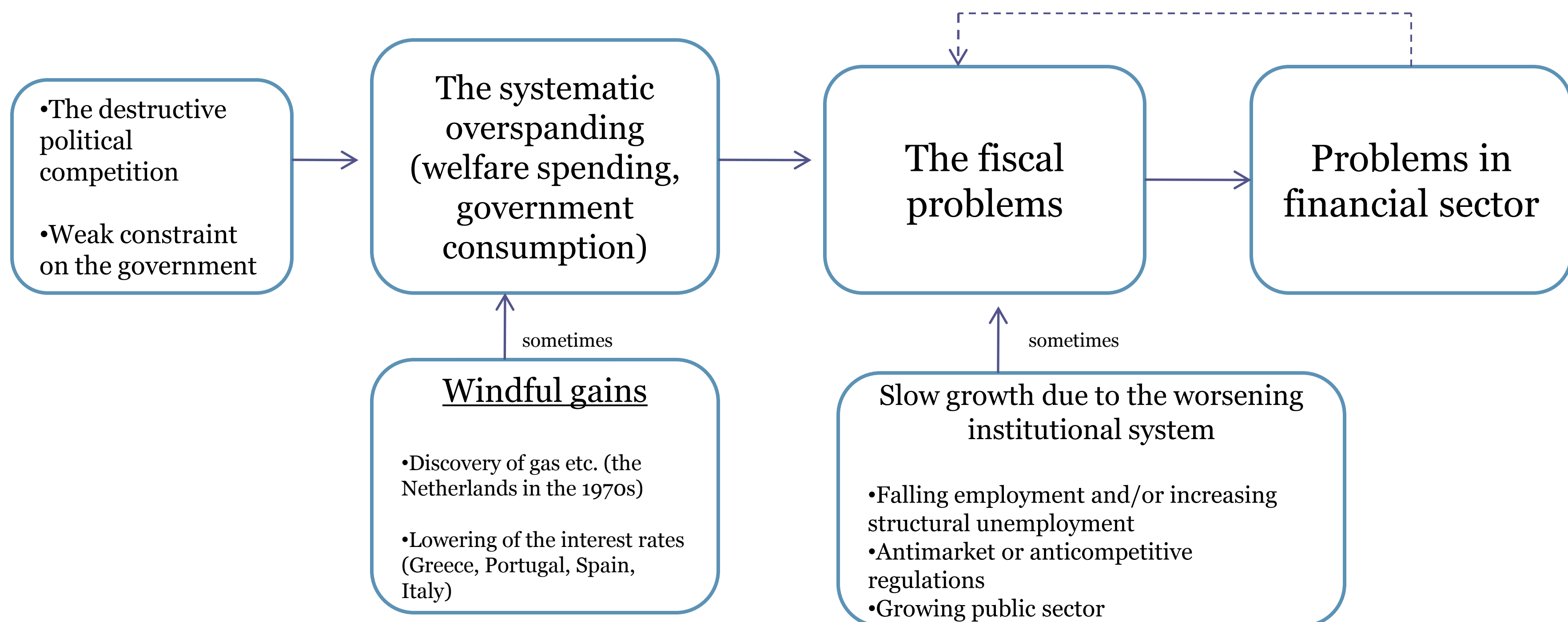
6. Financial regulations which encouraged excessive securitization, e.g. the risk-weights contained in Basel 1 and the mandatory use of credit rating by the financial investors.

7. Generous deposit insurance which eliminates an important source of market discipline.

8. Regulations which limit the shareholders concentration in large banks and thus increase the agency problems and weaken market discipline (Calomiris, 2009a). This may be an important source of the managers compensation schemes which favour short-term gains and disregard longer –term risks.

9. Policies which have resulted in the "too big to fail" syndrome, i.e. financial markets' subsidization – vía reduced risk premiums – of the large financial conglomerates. This is another important instance of public interventions which weaken the market discipline. The resulting concentration, in the face of the financial crisis, exerts an enormous pressure upon the decision-makers to bail-out large financial companies again, thus creating a sort of a vicious circle. The policies in question included an easy acceptance of the mergers of already huge financial companies and an easy-money policy which fuelled the growth of already large financial conglomerates.

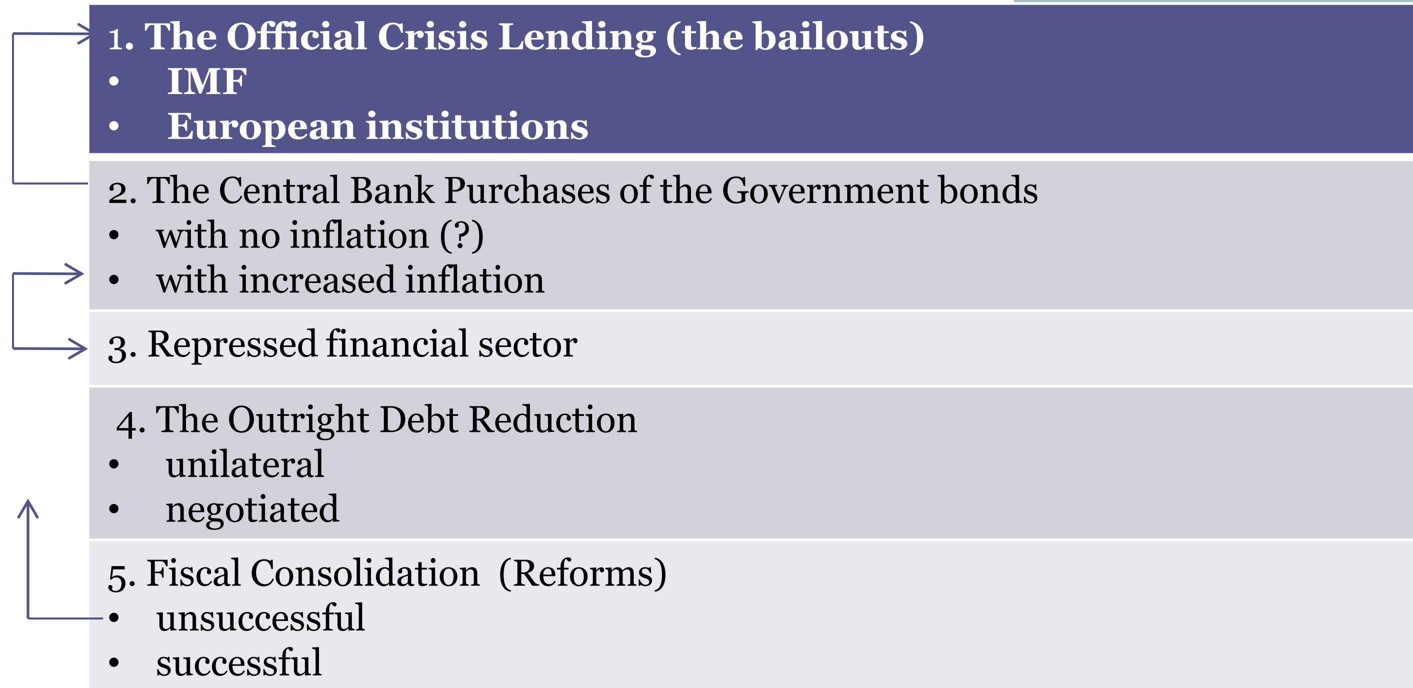
Figure 5. The dynamics of Fiscal- Financial Crisis



		1990	1995	2000	2005	2006	2007	2008	2009	2010
Greece	General government total expenditure	43,43	43,17	46,64	43,95	45,16	46,64	49,65	52,84	49,48
	General government net lending/borrowing	-14,51	-6,99	-3,69	-5,30	-6,12	-6,69	-9,80	-15,51	-10,42
	General government net debt	64,22	66,40	77,41	100,29	106,11	105,41	110,72	127,10	142,76
Portugal	General government total expenditure	39,26	39,66	39,29	42,42	40,82	44,30	44,64	49,83	50,64
	General government net lending/borrowing	-5,06	-3,41	-1,09	-2,54	-0,36	-3,15	-3,54	-10,11	-9,14
	General government net debt	n/a	n/a	41,97	57,95	58,77	63,66	67,36	78,79	88,70

Source: IMF

IV. The Follow-up to Financial-Fiscal Crises: the Experience



Comments:

• All bailouts create moral hazard; they do not solve the core problem; at the best they serve to buy time to prepare the consolidation/reform package (see the huge literature on IMF). Bailouts do not substitute for consolidation/reforms.

• The return to a repressed financial sector is –hopefully- not very likely

•Appropriate fiscal consolidation/reforms can restore confidence of the financial markets, i.e. they have both short-term and loner-term effects (see later)

•The popular expressions: „contagion", „domino effects", etc. are misleading methaphors

• The uncritical use of those methaphors contributes to the pressure aiming at forcing the bailouts and central bank „actions"

• Delayed, insufficient and/or badly structured consolidation/reform effort exacerbate this pressure

V. Central Banks, Public Debt, Inflation

V.1. Those who excert a pressure on the ECB to engage in the massive purchases of the euro area governments' bonds use three main rhetorical devices:

- They stretch the concept of the „lender of the last resort" (see the criticism of O. Issing)
- They frame the choice: either the ECB „will be „the lender of the last resort" or a catastrophe will happen"
- They refer to the examples of FED and Bank of England, as the mere referrence to any example could suffice to settle the problem

This rhetorical devices are no substitute for a careful comparative analysis of the consequences.

V.2. Even a preliminary analysis shows, that the massive purchases of government bonds by the ECB would be a worse kind of a „bail-out”:

- It would create a worse moral hazard problem (weakening the incentives to reform)
- It would risk generating inflation and other negative consequences
- It could undermine the trust in the ECB
- It would give it a powerful political position inviting the pressures from the politicians
- It would further undermine the rule of law in the EU in a situation when confidence is crucial

V.3. There is- to my knowledge- no careful comparative analysis of the QE and the monetization of the public debt in Japan, the US and Britain. But these operations are cerainly not a „free lunch”:

• in Japan, these operations contributed via very low interest rates to the delays in the reforms and the restructuring of the economy, thus weakening the economic growth and excerbating the sovereign debt distress
•In the US the growth slowdown has not been prevented but inflation has not declined; the QE which includes public debt monetization has contributed to the asset bubbles in the world (including oil prices)
•In Britain growth is even slower while inflation is higher

Japan

	Monetary base/GDP	Inflation	GDP per capita (USD, current prices)
1990	9%	3,05%	5,6%
1991	8%	3,28%	3,3%
1992	8%	1,74%	0,8%
1993	8%	1,31%	0,2%
1994	9%	0,60%	0,9%
1995	9%	-0,10%	1,9%
1996	9%	0,10%	2,6%
1997	10%	1,88%	1,6%
1998	11%	0,58%	-2,0%
1999	12%	-0,29%	-0,1%
2000	13%	-0,68%	2,9%
2001	14%	-0,78%	0,2%
2002	18%	-0,88%	0,3%
2003	21%	-0,30%	1,4%
2004	22%	0,00%	2,7%
2005	22%	-0,30%	1,9%
2006	19%	0,30%	2,0%
2007	17%	0,00%	2,4%
2008	18%	1,39%	-1,2%
2009	20%	-1,37%	-6,3%
2010	21%	-0,72%	4,0%
2011		-0,37%	-0,5%

Source: Bank of Japan, IMF

USA

	Monetary base/GDP	Inflation	GDP growth
2007	6,28%	2,87%	1,91%
2008	12,61%	3,82%	-0,34%
2009	15,92%	-0,33%	-3,49%
2010	15,39%	1,65%	3,03%
2011		2,99%	1,53%

Source: Federal Reserve, IMF

UK

	Monetary base/GDP	Inflation	GDP growth
2007	5,33%	2,35%	2,69%
2008	6,74%	3,63%	-0,07%
2009	14,58%	2,12%	-4,88%
2010	13,71%	3,34%	1,35%
2011		4,51%	1,14%

Source: Eurostat, IMF

VI. The Fiscal Consolidation/ Reforms

When deficit's reduction is long lasting?

First and foremost when it is expenditure based

Authors	Countries analyzed	Period covered	Main findings
Alesina, Perotti (1996)	20 OECD countries and 3 case studies (Denmark, Ireland and Italy)	1960-1994	"We find that fiscal adjustments which rely primarily on spending cuts on transfers and the government wage bill have a better chance of being successful (...) On the contrary fiscal adjustments which rely primarily on tax increases and cuts in public investment tend not to last"
McDermott, Westcott (1996)	20 OECD countries	1970-1995	"Fiscal consolidation that concentrates on the expenditure side, especially transfers and government wages, is more likely to succeed in reducing the public debt ratio than tax-based consolidation. Also, the greater the magnitude of the fiscal consolidation, the more likely it is to succeed in reducing the debt ratio"
Alesina, Ardagna (1998)	20 OECD countries and 10 case studies	1960-1994	"Three ingredients seem to be important for a succesful, long-lasting and expansionary fiscal adjustment. It must combine spending cuts in transfers, welfare programmes and the governemnt wage bill, some form of wage agreement with the unions that ensures wage moderation, and a devaluation immediately before the fiscal tightening"
Alesina, Ardagna (2009)	21 OECD countries	1970-2007	"As for fiscal adjustments those based upon spending cuts and no tax increases are more likely to reduce deficits and debt over GDP ratios than those based upon tax increases."

Authors	Countries analyzed	Period covered	Main findings
Hagen von, Hallett, Strauch (2002)	20 OECD countries	1960–1998	"(...) the likelihood of sustained consolidation efforts rises when governments tackle politically sensitive items on the budget, such as transfers, subsidies, and government wages. Switching strategies that start with rising taxes and later switching to reduced spending does not produce better results than consistently expenditure-based consolidations. Our analysis also indicates that consolidation fatigue is an important element which policymakers should take into account, since they are strongly time-dependent. Finally, the economic conditions at the start of and during the fiscal consolidation matter. A high debt–GDP ratio and fiscal tightening in other OECD countries raise the likelihood of consolidations to persist. In addition, a weak but recovering domestic economy contributes to the longevity of consolidations."
Guichard, Kennedy, Wurzel, André (2007)	24 OECD countries	1978-2003	"Large initial deficits and high interest rates have been important in prompting fiscal adjustment and also in boosting the overall size and duration of consolidation. Concerning the quality of fiscal policies, an emphasis on cutting current expenditures has been associated with overall larger consolidation. Fiscal rules with embedded expenditure targets tended to be associated with larger and longer adjustments, pointing to institutional features playing a potentially important role in generating successful consolation efforts. Experience across countries also shows that certain design features such as transparency, flexibility to face shocks and effective enforcement mechanisms seem important for the effectiveness of fiscal rules"
Barrios, Langedijk, Pench (2010)	EU27 and 8 non EU OECD countries	1970-2008	"(i) in presence of a systemic financial crisis, the repair of the banking sector is a pre-condition for a fiscal consolidation to succeed in reducing debt levels, especially so when fiscal consolidations are sharp (ii) even after the banking sector is repaired, fiscal consolidations are usually less successful than in absence of financial crises, although more vigorous fiscal consolidations (i.e. cold shower) tend to yield higher results (iii) current debt dynamics in the EU are very unfavourable and in some cases, coupled with rising debt servicing costs and much deteriorated growth outlook warranting differentiated consolidation strategies across EU countries (iv) We do not find conclusive evidence in support of exchange rates (including real exchange rate) depreciation/devaluation as enhancing the success of fiscal consolidation as their effect appear to be low and insignificant."

Under certain conditions fiscal consolidation may turn out to be expansionary. Theory indicates a number of channels through which fiscal adjustment may lead to such non-Keynesian effects

Studies, in general, confirm that the non-Keynesian effects of fiscal consolidation are more likely to occur, when:

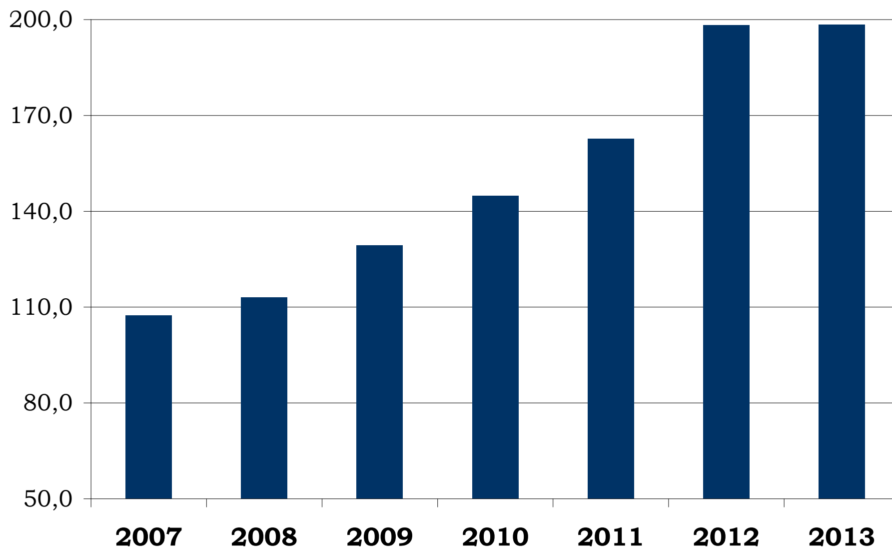
- public debt before fiscal consolidation is high or fast growing rather than low and slowly growing;
- fiscal consolidation is of large size and long lasting;
- deficit is reduced through cuts in expenditure rather than via tax increases;
- fiscal consolidation is focused on wages and salaries in public sector and on transfers to households;
- fiscal consolidation is introduced in an open economy.

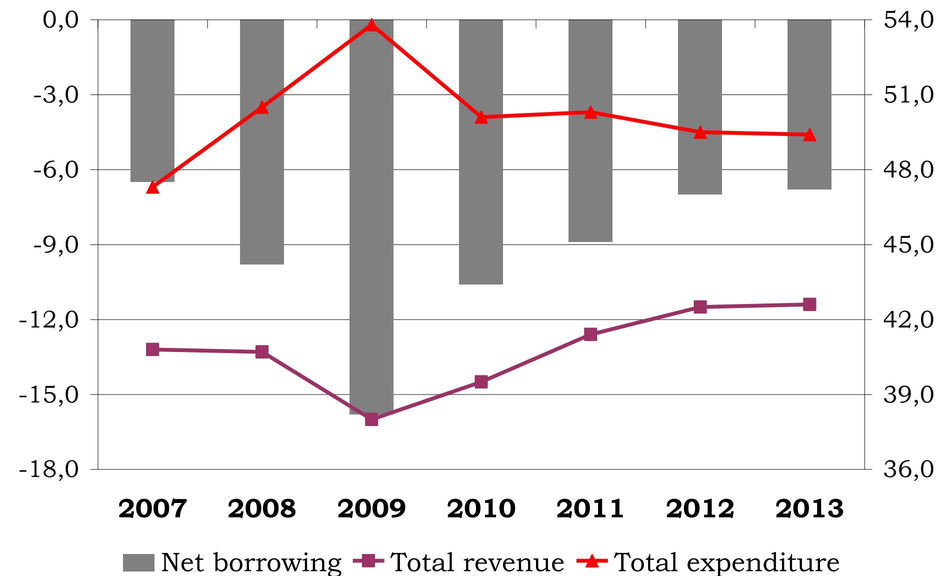
Non- Keynesian effects

Authors	Date of publication	Countries analysed	Period covered	Main findings
Giavazzi F., Pagano M.	1996	19 OECD countries and the case of Sweden	1970-1992	"Our main results are: (i) fiscal policy changes can indeed have non-Keynesian effects if they are sufficiently large and protracted; (ii) these effects are present not only if the fiscal turnaround is obtained through changes in public consumption, but also if it is achieved through changes in taxes and transfers (...); (iii) non-Keynesian effects work, at least partly, by affecting private sector expectations about the future income from labor and capital, and not solely via the implied changes in the real interest rate and asset values"
McDermott, Westcott	1996	20 OECD countries	1970-1995	"(...)fiscal consolidation need not trigger an economic slowdown, especially over the medium term. Fiscal consolidation that concentrates on the expenditure side, especially transfers and government wages, is more likely to succeed in reducing the public debt ratio than tax-based consolidation. Also, the greater the magnitude of the fiscal consolidation, the more likely it is to succeed in reducing the debt ratio"
Perotti R.	1999	19 OECD countries	1965-1994	"I find strong evidence that expenditure shocks have Keynesian effects at low levels of debt or deficit, and non-Keynesian effects in the opposite circumstances. The evidence on similar switch in the effects of tax shocks is less strong."
Lane P. R., Perotti R.	2001	14-17 OECD countries	1964-93	"A fiscal reform that takes the form of a reduction in wage government spending will crowd in an expansion in traded output and employment and improve the level of profitability. A reform that consists of an increase in labor taxation will have the opposite effect on the traded sector. (...) under flexible exchange rates, a reduction in wage government spending doubly improves profitability in the traded sector: not only do labor costs fall but firms in the traded sector also benefit from the induced exchange rate depreciation."
Borys P., Cizkowicz P., Rzońca A.	2011	10 NMS	1995-2010	"The results confirm that composition of the consolidation determines the output response. Moreover, we find evidence that all types of fiscal consolidations stimulate private investments, while export acceleration is observed only when consolidations involve mostly expenditure curtailment. Private consumption reaction to fiscal policy shows signs of nonlinearity - in the case of minor adjustments Keynesian effects dominate, but they are cancelled out when sizable consolidations are considered."

Based on both theoretical and empirical studies on non-Keynesian effects of fiscal contraction, one may claim that deficit's reduction in Greece has not been expansionary, because:

- ✓ even if large, the adjustment has not been large enough to dispel concerns for government's solvency;
- ✓ even if it has included cuts in expenditure, expenditure to GDP ratio is expected to stay above its pre-cisis level; besides, positive supply effects of these cuts have been offset (or possibly outweighed) by negative effects of tax increases (both introduced and planned);
- ✓ it has not been accompanied by significant growth enhancing reforms.





Source: European Commission (2011) "European Economic Forecast - Autumn 2011". *European Economy* 6/2011

VII. What are the Structural Problems in the Euro Area? What are the Solutions?

VII. 1. Two kinds of problems:

1. Not related to the essence of the EMU (eg. low capital/asset ratios in the largest European banks)

2. Related to the essence of the EMU

VII. 2. What are the special (inherent) problems of the EMU- the main assertions:

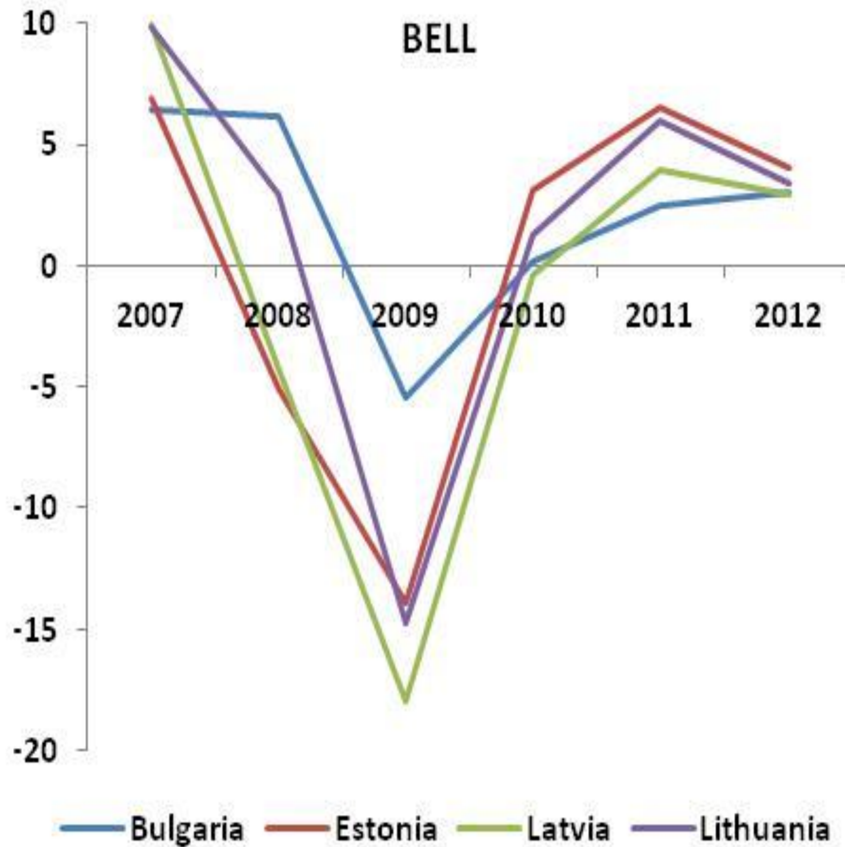
1. One monetary policy can not fit all

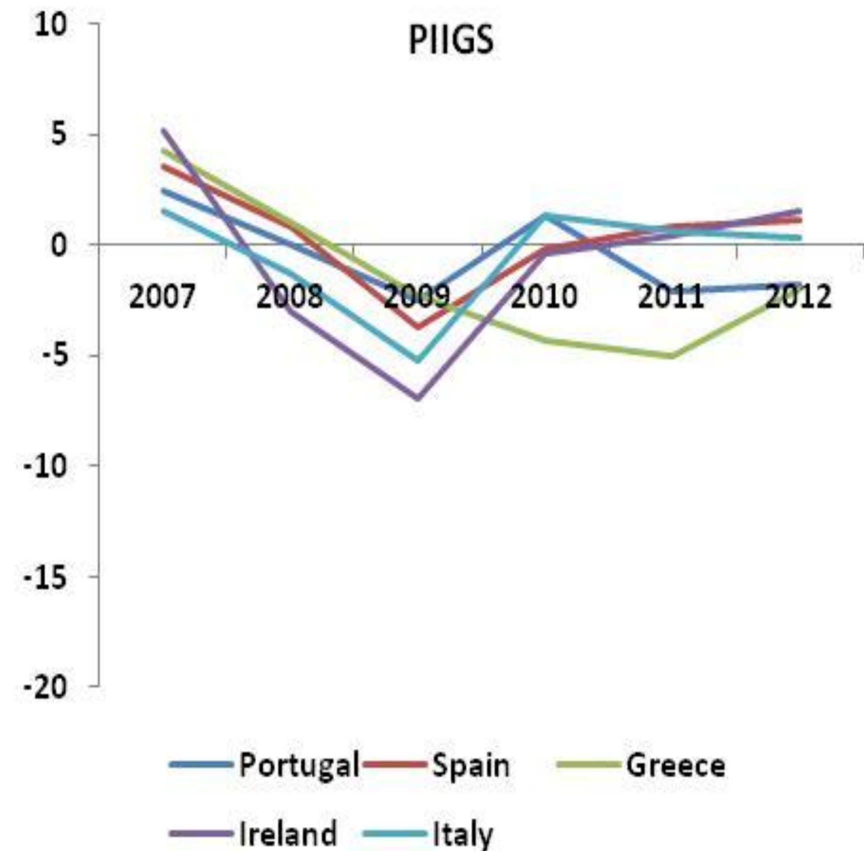
2. The monetary union without a „political” union

VII. 3. One monetary policy can not fit all ? The nominal devaluation in necessary tool of adjustment?

- The temporal aspect (assymetric shocks)- not a serious problems in view of the growing synchronization of the business cycles
- The structural aspect: the ECB's interest rate may be too low for some countries most of the time: boom → bust; much more serious problem
- The experience of hard pegs:PIIGS versus BELL

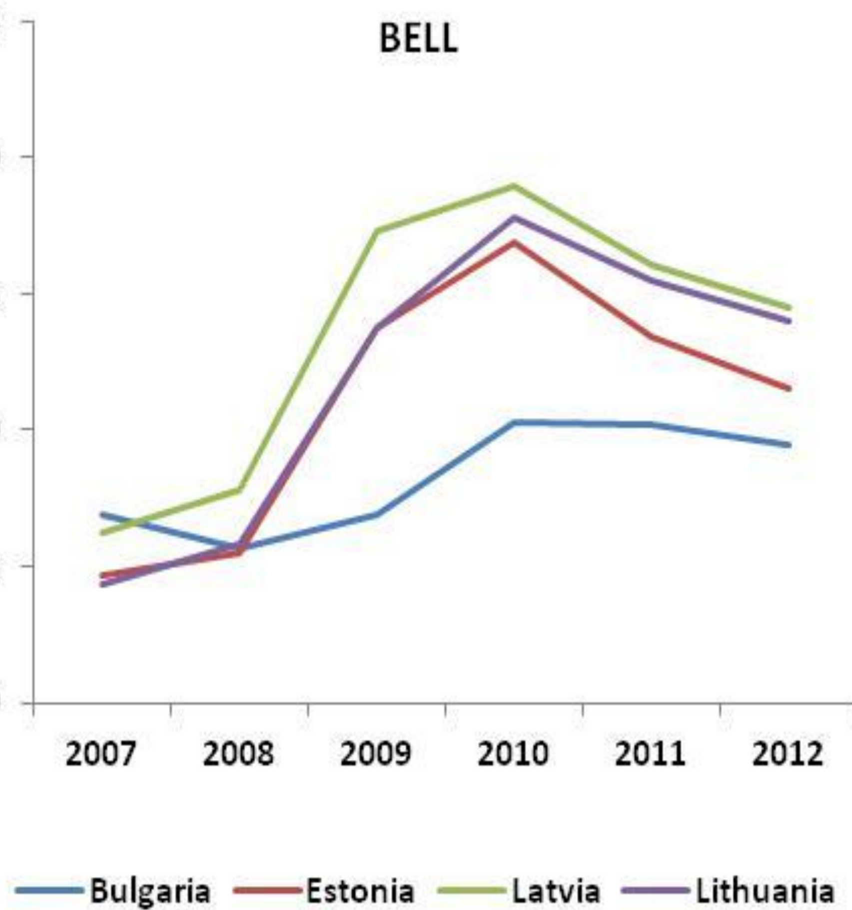
GDP growth 2007-2012 (%)

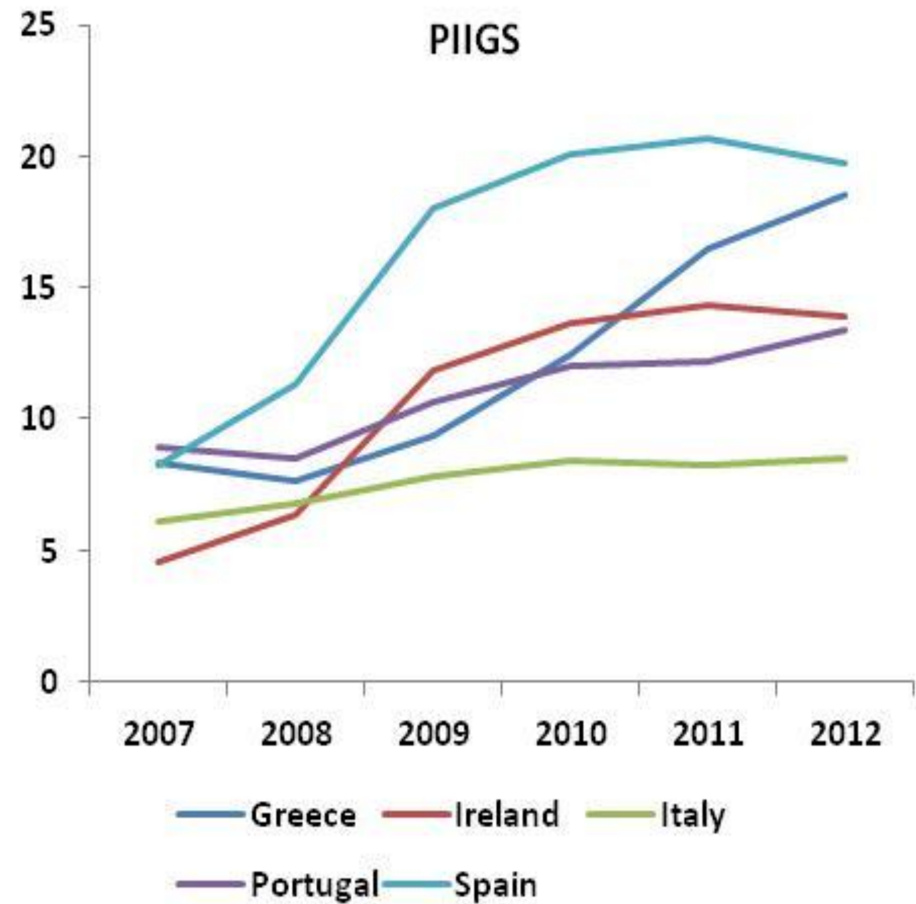




Source: IMF WEO IX 2011

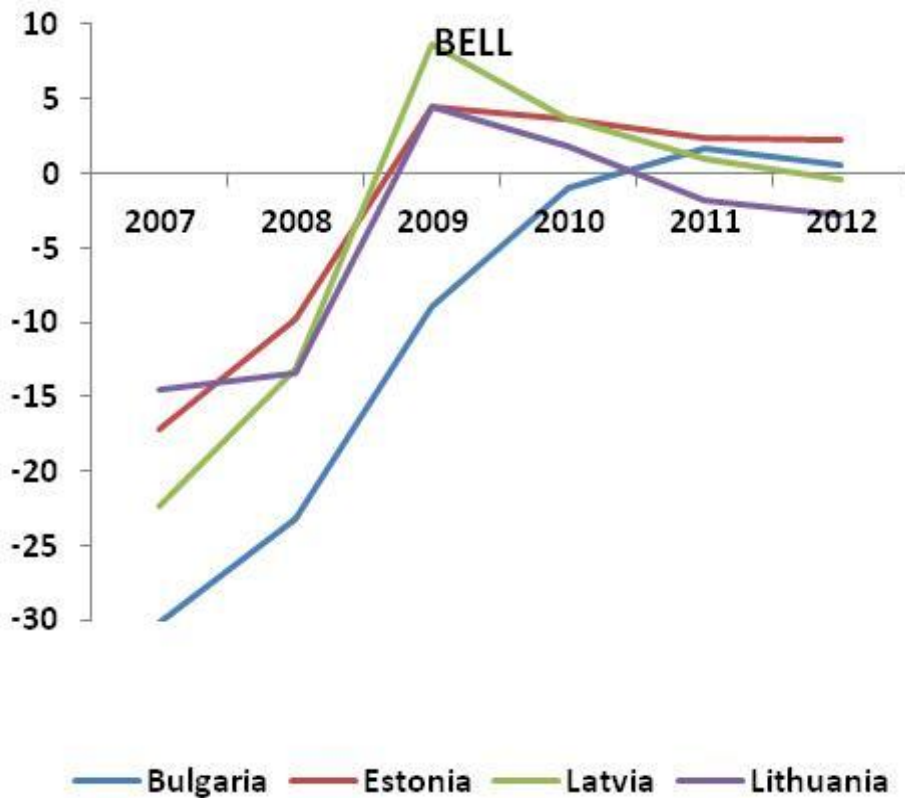
Unemployment rate (%)

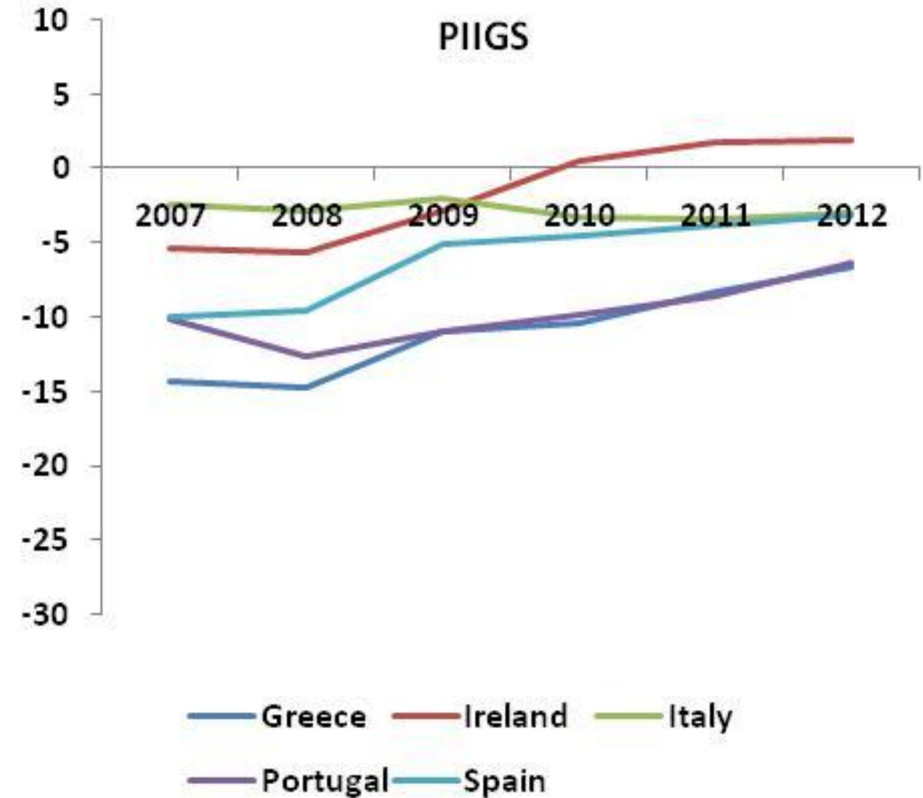




Source: IMF WEO IX 2011

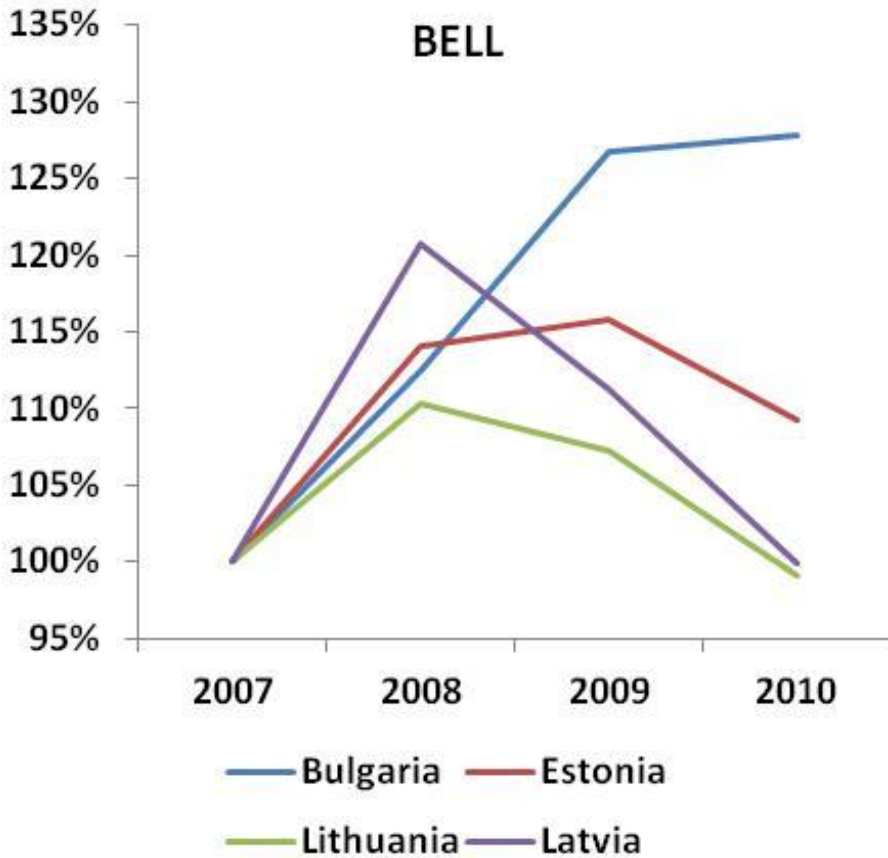
Current account balance (% GDP)

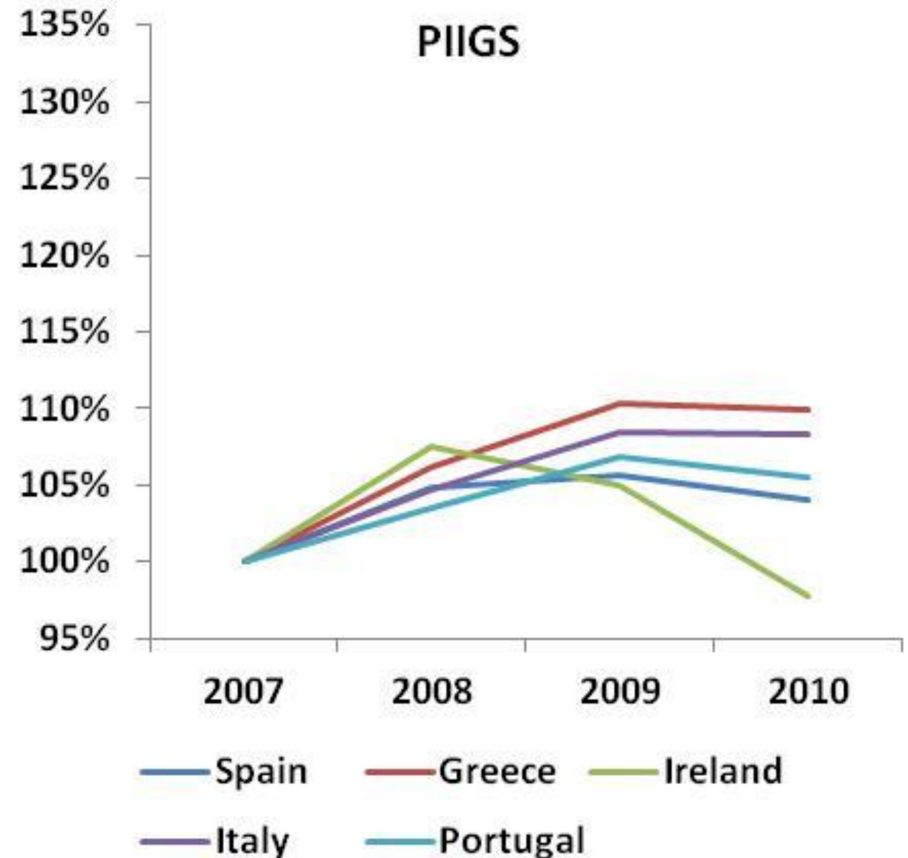




Source: IMF WEO IX 2011

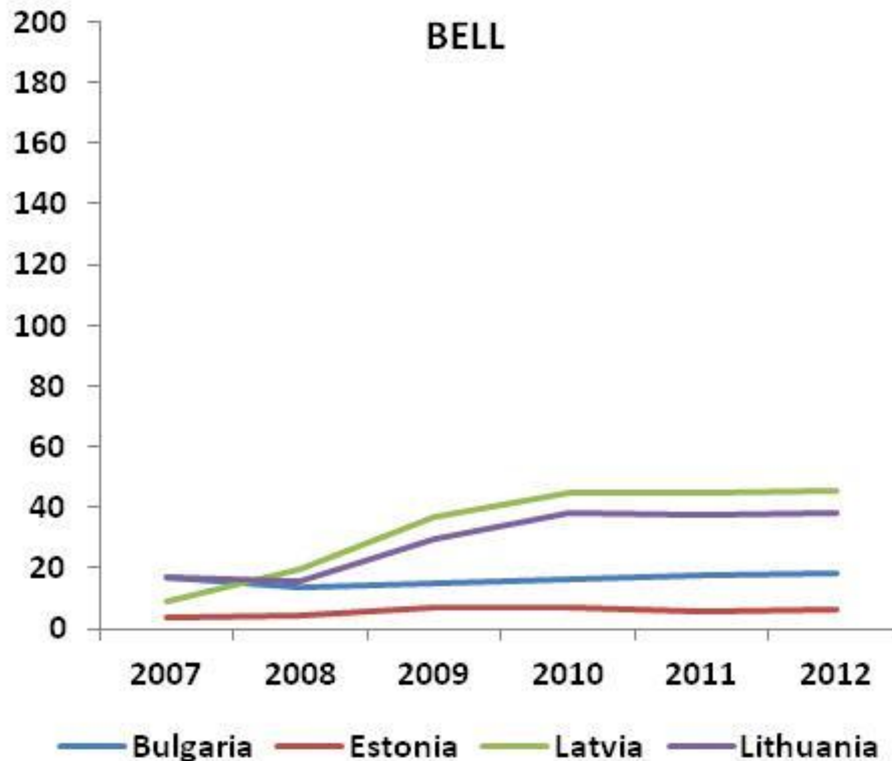
Unit Labor Costs (2007=100%)

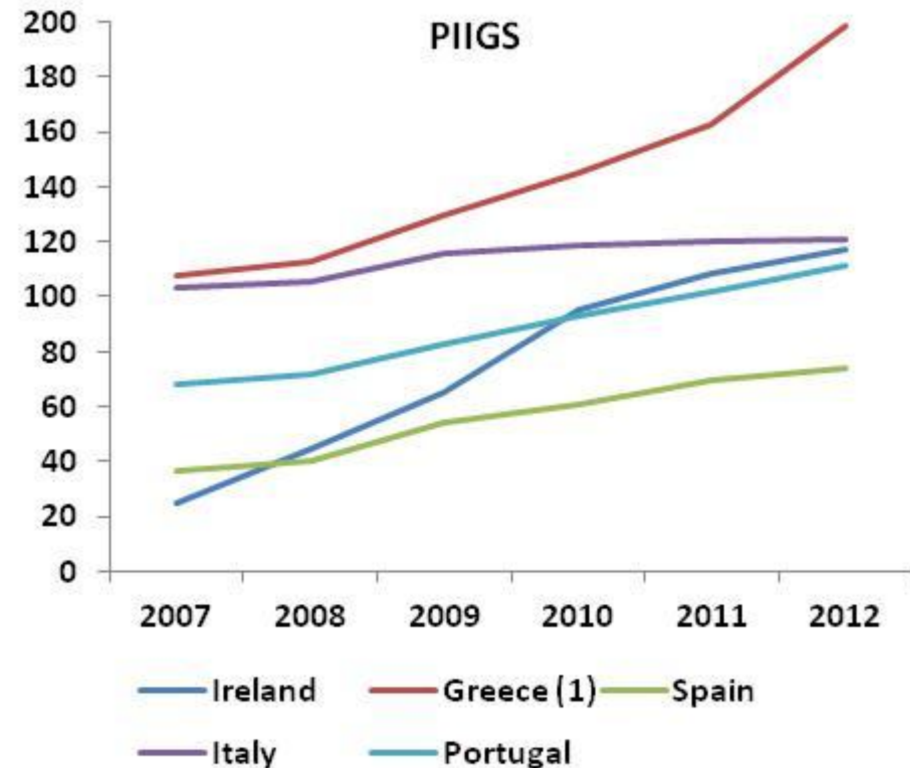




Source: ECB SDW

General government consolidated gross debt (% GDP)





1) The forecasts were finalised before the European Union Summit of 26 October 2011. Thus, they have not been updated to reflect the decisions taken at this summit which will have a direct impact on the debt, the interest and the deficit projections as of 2012.

Source: AMECO

VII. 4. Monetary union without the „political union", etc.

- What is a monetary union: a narrow and broader interpretation (hard pegs, including the Gold Standard)

- What is „political union"? Only a federal state?
  a) A large federal budget
  b) Fiscal contraint upon the regions- the initial intent of the Growth and Stability Pact
  (a) is not feasible; (b) should be credibly strenghtened but it is not enough, anchoring fiscal discipline in the respective countries is the key.

Concluding: the model of federal state (a large common budget) is not realistic but euro can survive with proper reforms

VIII. The Necessary Reforms

1. Reduce the risks that monetary policy would contribute to the private sector booms
2. Introduce proper macroprudential regulations
3. Eliminate wrong financial regulations
4. Strengthen the fiscal monitoring and fiscal constraints:

- at the EU level (credibility)
- in the respective countries

5. Radically increase the flexibility of the labor markets, where necessary to facilitate the internal devaluation
6. Strengthen the economic growth through reforms on the supply side