EUROZONE CONDEMNED TO PERMANENT CRISIS WITHOUT REFORMS

News / Finance

Political paralysis in the eurozone will force the bloc into permanent turmoil unless countries stop “muddling through” the crisis and take responsibility for reforms, the architect of Europe’s tough budget rules has warned.

Olli Rehn, who served as the European Commission’s top economic official at the height of the eurozone crisis, said political rifts between countries within the single currency bloc meant he did not see it becoming a “transfer union” where stronger economies paid for weaker ones.

“There is not much political appetite for a 'United States of Europe’ for the moment or for the foreseeable future,” he said.

“In my view, the eurozone will continue to evolve into a stability union, not a transfer union, and increased solidarity will have to be first matched by increased responsibility for structural reforms.”

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Olli Rehn served as European Commissioner for economic and monetary affairs between 2010 and 2014.

Mr Rehn, Finland's current economy minister, warned that countries could not afford to delay implementing reforms in key areas such as the labour market and education.

“For the eurozone to overcome its challenges, it needs decisive and determined economic reforms at the level of member states itself, but also developed by the eurozone itself,” he said. “We've had enough of muddling through, it's time for decisive action."

Mr Rehn said closer links could be forged between countries by building a stronger banking union and creating policies to build a stable eurozone.

While he used Greece as an example of a country where political turbulence had led to economic instability, Mr Rehn also took a veiled jibe at Germany, which has beencriticised for a lack of investment.

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Olli Rehn

“The lack of economic reform in countries like Greece serves as a warning to other member states over the inability of the political class to reform the country ... The focus really has to be on economic reform and increased investment,” he said.

Mr Rehn said debt and deficit rules, which he helped to enforce during his time in Brussels should be matched by policies that promoted employment growth and investment.

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He described Greece's third bail-out in five years as far from ideal, but added: "it is still a better course of action than an uncontrolled Greek exit would be. The fundmanetal thing is whether Greece will now seriously be able to implement economic reforms in a way that Spain, Portugal and Ireland have done, and have recovered since economic reforms ... If it does this then Greece may be able to make a reasonable success of a third bail-out."

Alexis Tsipras, the country's prime minister, resigned on Thursday and called a snap election, which is likely to be held on September 20.

Mr Rehn also laid out his action plan to revive the Finnish economy. The country shrank by 0.4pc in the second quarter, as it continues to suffer from the decline of Russia, Nokia and the country's paper industry.

Mr Rehn said it was a "close call" whether Finland would remain in recession for a fourth year. "This year we'll have close to zero growth but we expect next year onwards we will return to positive growth," he said.

He said Finland's recovery would be based on the "three pillars" of making Finnish businesses competitive again "by introducing a social contract between the trade unions an employers", stabilising the country's public finances over the medium term and encouraging private investment in new areas such as green growth and renewable energy.

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