Now it's the turn of EU leaders to do 'whatever it takes' to save Europe – or it won't be enough

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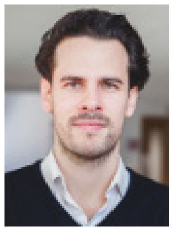
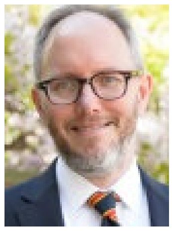
April 23, 2020

The European Council will hold a video conference on the Covid-19 outbreak later today. **Sebastian Diessner**, **Erik Jones** *and* **Corrado Macchiarelli** *write that with European economies under unprecedented strain, it is now time for EU leaders to commit to doing whatever it takes to forestall the crisis.*





Everyone is waiting for the 'whatever it takes' moment that is going to ward off Europe's impending fiscal and financial crisis. At the same time, European heads of state or government are determined that whatever it takes should happen within limits. The time has come for them to realise that they cannot have it both ways. Either they are going to accept the responsibility for doing whatever it takes to forestall the crisis, or they are going to have to admit that other actors – most notably the European Central Bank – will have to set aside their remaining limits. Moreover, it has always been this way. The difference now is that whatever buffers might have made it possible in the past to tolerate the contradictions between 'whatever it takes' and 'within limits' have been exhausted.

Consider Mario Draghi's famous commitment to preserve the euro, a bold pledge to purchase sovereign bonds in virtually unlimited quantities in order to stave off the fragmentation of the euro area. The pledge itself arguably saved the common currency back in 2012. However, it was never truly unlimited. The guardians of European monetary orthodoxy fought tooth and nail to prove that the ECB's actions were breaching the limits of its mandate. But even if that were not the case, it remained unclear how much sovereign debt with a residual maturity of less than three years the ECB could actually have bought from a country like Italy. It was also unclear what kind of conditionality Italy would have had to accept to qualify for assistance in the first place. What is clear then is that there *are* limits – in terms of maturity, exposure levels, volumes, and qualifications – which would have to be breached for the policy to be activated.

German Chancellor, Angela Merkel, with French President, Emmanuel Macron, at a meeting in February 2020, Credit: European Union

The same is true for the Pandemic Emergency Purchase Programme today, despite President Lagarde's proclamation that there are 'no limits' to the central bank's resolve to see the euro area through this crisis, a pledge that proved controversial even within the ECB's own decision-making body. While the ECB said the usual 33 per cent country-ceiling would not apply to its emergency programme, the Governing Council established that the programme would run until the end of this calendar year and entail up to €750 billion in new acquisitions. Given the burn rate over the past four weeks, however, it is doubtful that the sum will last that long.

Since the programme started, on 26 March, the ECB has already settled €70.7 billion – and that only covers purchases that have been settled, meaning purchases initiated after 17 April are not covered yet. Assuming the same pace will continue, the programme may just make it to the end of the year — so less than nine months). Given what happened in government bond markets last week, however, one can only imagine that the pace has increased. Of course, the Governing Council already signalled that it can add more to the volume and the calendar. That will require another decision and presumably a fresh set of limits. Just like the current ones, these will likely be tested by the markets sooner rather than later.

An area where the ECB appears to acknowledge that limits can hardly be imposed is the reinvestment of the principal of those assets from previous purchase programmes that mature on its balance sheet. For months now, the official policy has been that this reinvestment will take place so long as necessary to restore expectations of inflation to a level that is consistent with the ECB's definition of price stability. That essentially amounts to an unlimited commitment to an expanded ECB balance sheet, somewhat akin to monetary finance. Unsurprisingly, perhaps, we have seen tensions here in the past and we should expect to see tensions again in the future.

If the German government returns to a policy of fiscal consolidation soon after the crisis while other countries maintain a much higher level of indebtedness, for example, it will be very hard for the ECB to maintain an extended balance sheet without running afoul of its own standard for proportionality, the so-called capital key. Eventually, then, the ECB's Governing Council will have to choose to ignore its own limits in order to achieve its core mandate. A good reason for Europe's heads of state or government to think creatively is so that the ECB can continue to colour within the lines. Otherwise, Europe's heads of state or government can expect the central bank to be forced to cast aside even the most sacrosanct of its limits, including the prohibition of monetary finance.

But the European Council has its own contradictions between commitments and limits to reconcile. The North wants to offer solidarity without redistribution; the South demands redistribution without obligation. It is no more useful trying to identify which side of the conflict is morally superior than it is to recognise which group of political leaders is in the more impossible position with respect to their own domestic politics. The point is simply that these limits are inconsistent with the commitment to the future of the European project.

Unlike the ECB's Governing Council, however, the European Council is a political authority that is empowered to exercise discretion over how Europe is organised. It now faces a choice between the Europe that the founders imagined and constituted, and the limits written into and implied in that constitutional arrangement. This is a foundational moment. The EU's leaders can either unbind Europe or risk its demise. Whatever it takes must not be limited this time, or – paraphrasing Draghi's famous speech – it is unlikely to be enough.

Note: A version of this article appears at Encompass Europe. The article gives the views of the authors, not the position of EUROPP – European Politics and Policy or the London School of Economics.

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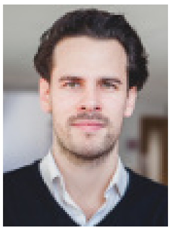

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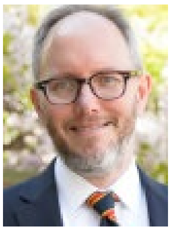

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