

The ECB's Fiscal Policy

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IIPF Tokyo
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Why the ECB cannot Japanize

1. The ECB is not the central bank of a state.
2. Maintaining price stability is its only goal.
3. The ECB has no competence competence.
4. The ECB must not carry out economic policy.
5. Article 123 TFEU excludes the monetisation of government debt.
6. Article 125 TFEU bans international bail-outs.
7. The German constitution forbids the Bundestag to shift part of its budgetary authority to European institutions.

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But when is it wet?

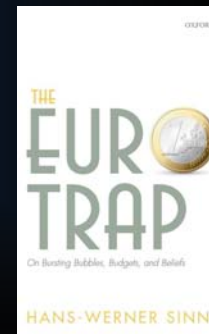
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The Intervention Spiral

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The intervention spiral

1. Credit bubble
2. Local money printing
3. SMP
4. EFSF/ESM
5. OMT
6. Banking union
7. QE

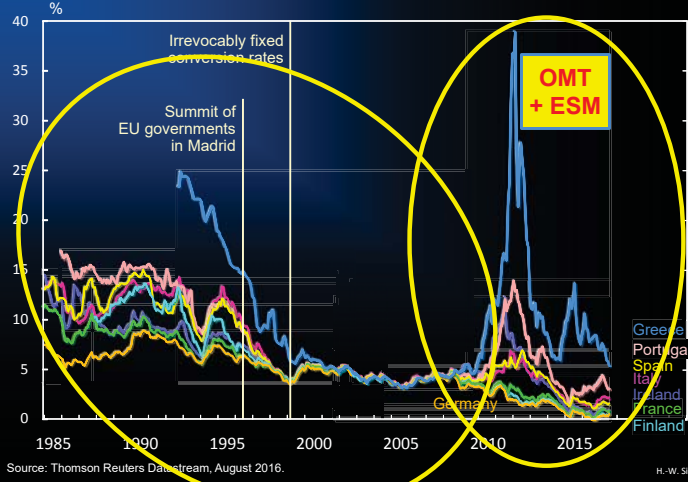


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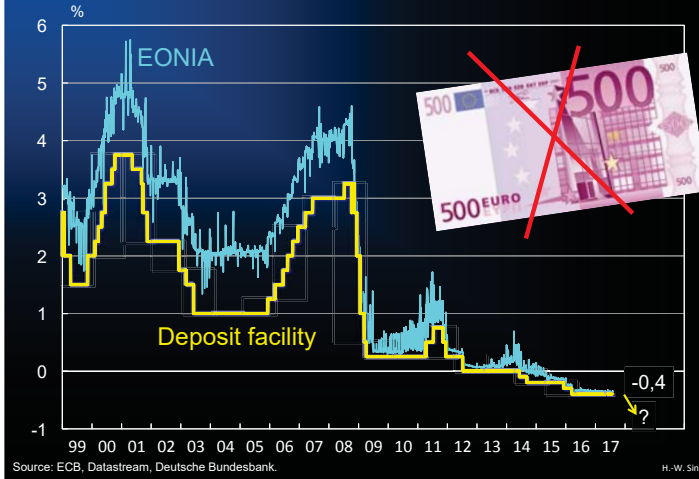
Reducing the Interest Burden

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Net yields for 10-year government bonds



Interest rates in the eurosystem

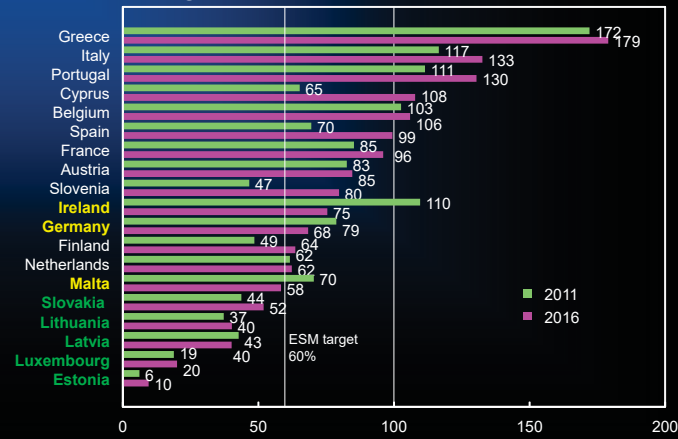


Defeating the Debt Brakes

Infringements of Stability and Growth Pact until 2016

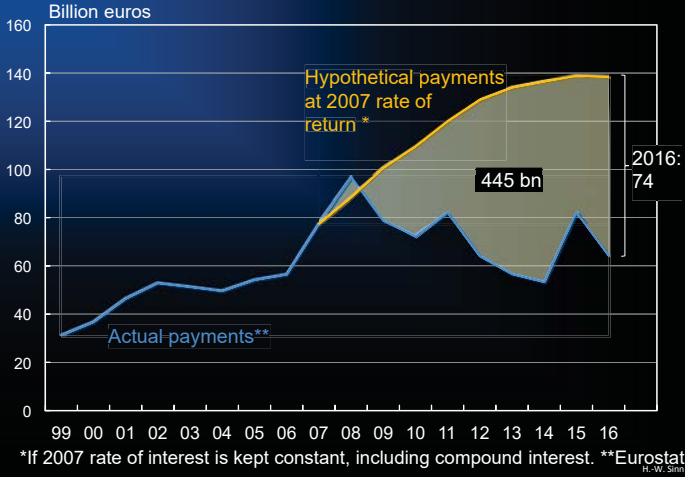
- 168 transgressions of 3% criterion
- 53 allowed because of recession
- 117 violations
- 0 punishments

Fiscal Compact and Public debt/GDP ratios 2011 and 2016



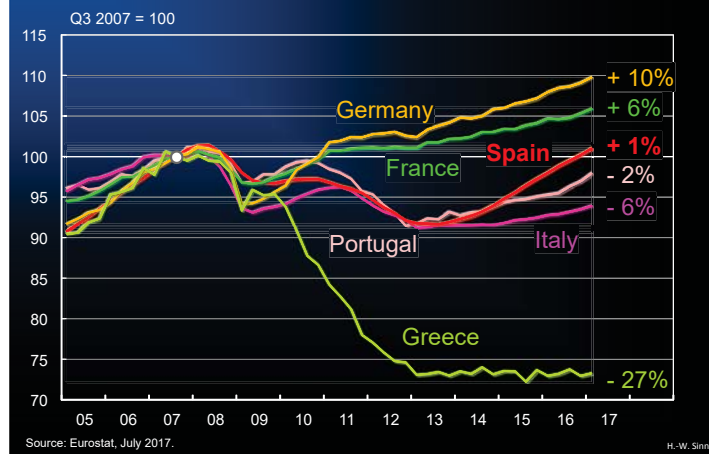
Massive Redistributive Effects

GIPSIC net investment income paid to other countries

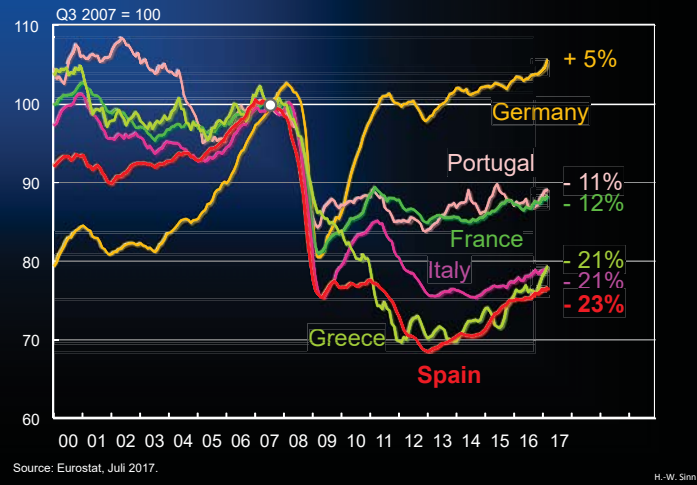


Artificial Keynesian Recovery

Real GDP: The debt driven boom

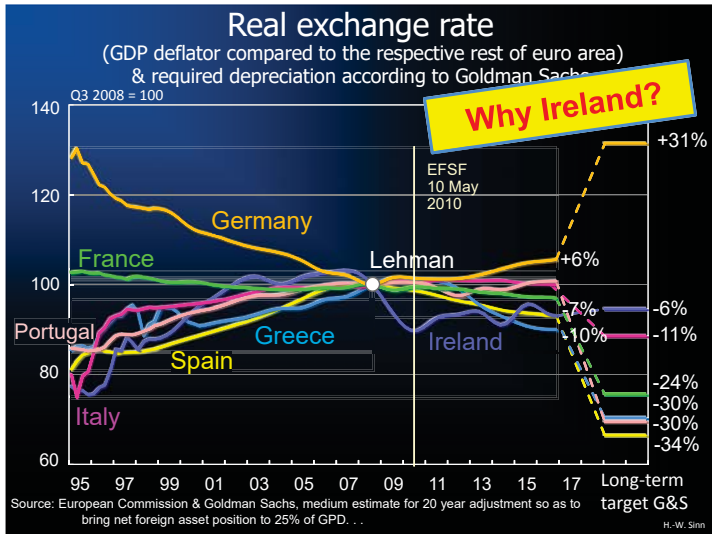


Manufacturing output



Loss of Competitiveness

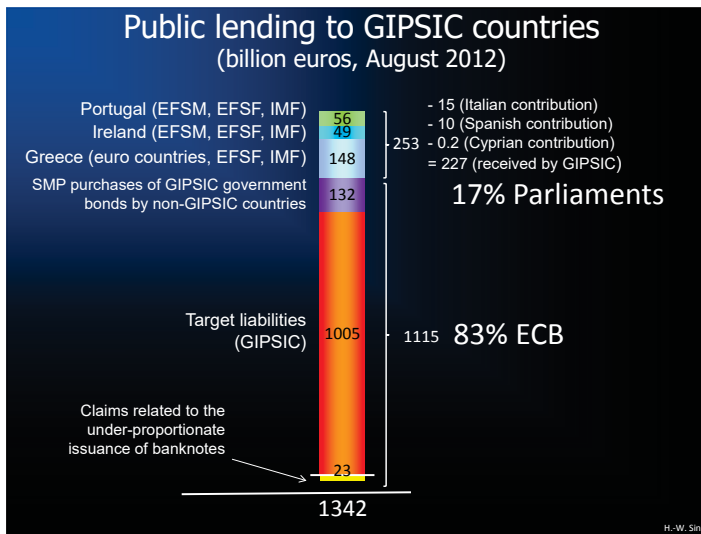
The European crisis is not a zero-sum game, but Pareto inefficiency, resulting from wrong relative prices.



- ### Four dismal options
1. Transfer union
 2. Deflating the South (austerity)
 3. Re-inflating the North
 4. Temporary exits

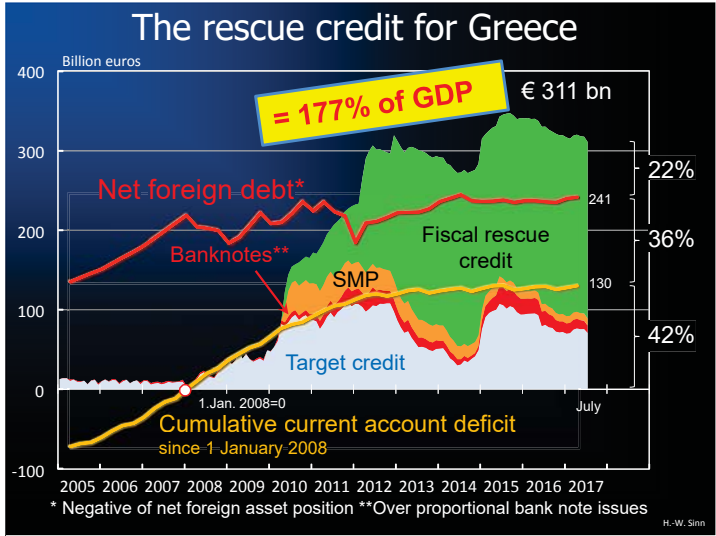
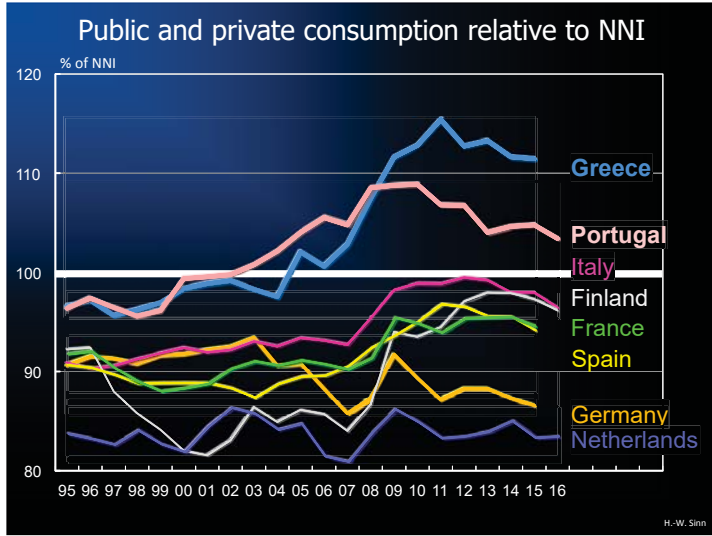
Self-service with the printing press

- ### The tools for local money printing
1. Collateral policy
 2. ELA
 3. ANFA



Greek Austerity?

The juicy narrative



Quantitative Easing

QE

€ 2.3 trillion asset purchase until end of 2017

Of which € 1.8 trillion are government bond purchases.

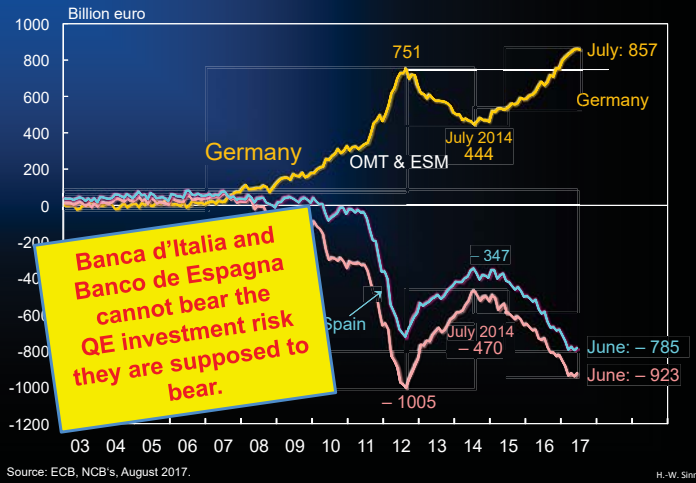
The initial stock of base money in January 2015 was € 1.3 trillion.

Tuesday (15 August 2017)
German Constitutional Court: QE may violate Article 123 TFEU, because it is economic policy.

QE implies new Target balances despite the symmetry of purchases.

1. Bundesbank finances repurchases of southern government bonds from German sellers.
2. Bundesbank credits triangular transactions with the whole world.

The Target balances



Two Models for Europe



1. Debt mutualization Example USA



Harold James, Princeton:
The fiscal union was rather an explosive than cement.

2. Liability principle as a market-based overrun brake.

Another Europe

1. Breathing currency union
2. Bankruptcy rules for states
3. Settling the Target balances
4. Return to essential: political union with security partnership

Conclusions

The ECB's Fiscal Policies

1. Contrary to article 125 TFEU the ECB acts as a bail-out machinery.
2. ECB may produce a Japanese debt disease.
3. Northern tax payers have become the new creditors of the South: conflict pre-programmed
4. Low interest rates have reduced the interest burden of GIPSIC countries by about € 450 bn since 2008.
5. With OMT, SMP und Target, the Eurosystem goes much further than US Federal Reserve System would ever go.
6. The ECB Council acts as the Eurozone's fiscal hegemon, forcing parliaments to follow.

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