The ECB’s Fiscal Policy
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19 August 2017

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.

But when is it wet?

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

Reducing the Interest Burden
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
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Hypothetical payments at 2007 rate of return *

GIPSIC net investment income paid to other countries

Artificial Keynesian Recovery

Billion euros

2016: 445 bn

Actual payments**

*If 2007 rate of interest is kept constant, including compound interest. **Eurostat

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

The tools for local money printing

1. Collateral policy
2. ELA
3. ANFA

Public lending to GIPSIC countries (billion euros, August 2012)

- Portugal (EFSM, EFSF, IMF)
- Ireland (EFSM, EFSF, IMF)
- Greece (Euro countries, EFSF, IMF)

SMP purchases of GIPSIC government bonds by non-GIPSIC countries

Target liabilities (GIPSIC)

23

Claims related to the under-proportionate issuance of banknotes

1115

83% ECB

17% Parliaments

Greek Austerity?
The juicy narrative

Quantitative Easing

QE

€ 2.3 trillion asset purchases 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.
Two Models for Europe

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

Banca d'Italia and Banco de Espagna cannot bear the QE investment risk they are supposed to bear.

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.