MAINSTREAMING MONETARY FINANCE

in the COVID-19 crisis

Sebastian Diessner

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PositiveMoney Europe

About Positive Money Europe

Positive Money Europe is a not-for-profit research and campaigning organisation aiming to make the European Economic and Monetary Union support a fair, democratic and sustainable economy. We scrutinize the European Central Bank and work with parliamentarians, NGOs and academics to develop policy proposals to reform the Eurozone. Positive Money Europe was set up by Positive Money, a UK non-profit founded in 2010. Positive Money Europe was launched in February 2018 following the success of the campaign "Quantitative Easing for the People'. Positive Money Europe has an office in Brussels and is a registered interest group in the European Commission's transparency register.

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EXECUTIVE SUMMARY

The necessary **new public debt to fight the COVID-19-induced recession will exacerbate the debt sustainability debate and entail financial stability risks** for the euro area in the foreseeable future. This challenge needs to be tackled head-on before it morphs into a harmful Eurozone crisis 2.0.

Even if a swift and sizable Recovery Fund can be implemented by EU member states, euro area **monetary policy needs to do whatever it takes to aid the recovery**. The fact that monetary policy was 'the only game in town' in the last crisis, and that fiscal policy now needs to step up to the plate, does not do away with the **need for monetary-fiscal coordination** at the current juncture. In fact, the opposite is true.

Monetary finance is a powerful yet underappreciated tool in the toolbox of any central bank. It should neither be tabooed nor is it a cost-free panacea for all situations. **What is needed is an honest and pragmatic debate** about how to design it with a view to existing legal and governance constraints.

An ever-larger number of proposals have been put forward on how to design monetary finance in Europe and beyond, illustrating how **the idea of monetization is entering the mainstream**. **This report seeks to structure the debate** by ordering, categorizing and assessing proposals in terms of their merits and drawbacks, **in light of a stylized post-pandemic trilemma for the European Central Bank (ECB)**.

The report thus charts **a path forward in terms of how to achieve a better monetary-fiscal policy mix** in the euro area, which is sorely lacking so far.

FOREWORD

Over the past few years, it has become commonplace in policy panels to hear "monetary policy should not be the only game in town". In saying so, commentators usually mean that fiscal policy should be more proactive in stimulating the economy, while the effect of more monetary stimulus may be limited.

To this end, the creation of the EU recovery fund is extremely welcome. However, the protracted negotiations which EU leaders went through to agree the deal – and the resulting reduction of the agreement and delayed implementation (no earlier than 2021) shows that any further EU centralized fiscal response will always be too small and delayed. This is not least due to the inherently inefficient decision making process of the European Council.

The Covid-19 pandemic crisis and the policy response to it was a moment of truth in the debate on monetary and fiscal intervention. Positive Money Europe, while recognizing the opportunities and obstacles to greater fiscal cohesion, has always argued that ultimately the European Central Bank (ECB) will need to be prepared to take a more radical course of action.

We have seen that the ECB has been able to react extremely quickly to the pandemic crisis. In that context, we believe that this historical episode is a demonstration of the fact that, albeit desirable, more fiscal expansion will not replace monetary policy as the "only game in town".

It would therefore be unwise for EU policymakers not to consider ways of making monetary policy work better in the Eurozone. The obvious next step would be to ensure that further money creation by the ECB would be channelled directly to the economy, instead of relying on the financial and banking sectors as a transmission channel.

Following the outbreak of the pandemic crisis in Europe, we have seen an emergence of a range of proposals involving monetary finance by the ECB. In April 2020, Positive Money Europe also contributed to this debate by advancing a proposal for helicopter money in the form of direct cash transfers to citizens – an idea that we have been advocating for in the Eurozone since 2015.

However, we are very mindful that helicopter money is not the only way forward and are encouraged that a wider debate on different forms of monetary financing of governments is emerging. Positive Money Europe wants to be at the forefront of this discussion.

For this reason, we are working closely with Sebastian Diessner on advancing the debate on monetary finance in Europe. Given his ongoing work on the topic and strong research

record, he is perfectly placed to provide a theoretical framework for this discussion as well as a clear systemization of the existing proposals.

We hope for this research to provide fruitful ground for further debate, active engagement and innovative ideas from other researchers. Given the constant evolution of both discussions on monetary finance and the current economic situation, this work will not be our last on the topic.

Positive Money Europe will continue to closely follow the related policy developments, which will in turn inform and shape our research and advocacy work.

Stanislas Jourdan,

Executive Director of Positive Money Europe

1. Introduction: Safeguarding the European Monetary Union in the time of COVID-19

The COVID-19 crisis has triggered an economic shock of unprecedented magnitude in peacetime and is posing a fundamental challenge to the European Monetary Union (EMU). It requires an equally unprecedented policy response if the EMU is to overcome this shock and thrive thereafter. **A consensus has emerged that now is the time for fiscal policy to do most of the heavy lifting** (see Baldwin & Weder di Mauro 2020; Buti 2020), and hence for member state governments to do their bit, both individually and collectively. It is true that *monetary* policy by the ECB has forcefully stepped up to the plate already, including the announcement of an envelope of around €1.5 trillion in asset purchases. Member state governments, in turn, have set up substantial support programmes to prop up their national economies – although these vary widely due to differences in fiscal capacity – and have agreed on an EU-level Recovery Fund.

Notwithstanding the great importance of these steps, **this report questions the consensus that EU-level fiscal policy is the best way forward for the EMU in light of the worsening crisis**, given the institutional and political realities of the EU. While the Recovery Fund has been agreed, its financing remains uncertain and there is a pertinent risk that it will not be timely or sizable enough to tackle the fallout from the COVID-19-induced recession. In contrast, the euro area already has a centralized institution with the necessary capacity and determination to act, in combination with strong institutional safeguards to shield its independence - the ECB. Although a collective fiscal response on behalf of member state governments would be preferable on many grounds – including in terms of transparency and democratic legitimacy (Diessner et al. 2020) – the ECB is once again likely to be the only institution capable of leveraging the macroeconomic policy response that the euro area needs when the dust from the pandemic shock has settled (Wolf 2020).

Against this backdrop, **this policy report introduces and discusses proposals for a limited and legally compliant programme of monetary finance in the euro area**. A partial monetization of government deficits, although taboo, would entail significant benefits at assessable cost (De Grauwe & Diessner 2020). One of the chief virtues of monetary finance is that it would spare governments from having to issue new debt - if all new debts were monetized, the crisis would not increase government debt-to-GDP ratios. For countries suffering the worst of the pandemic, the threat of a bondholder panic that would destabilize the Eurozone would have been removed. Compared to the ECB's Pandemic Emergency Purchase Programme (PEPP), a monetization of deficits would not merely deal with liquidity

problems governments face in sovereign bond markets, but also address foreseeable solvency problems arising from unsustainable debt levels. **The aim of this policy report is thus to take stock and lay the groundwork for an effective and honest debate about monetary finance in light of the COVID-19 crisis**, thereby reflecting the fact that the prospect of monetization is increasingly entering the mainstream in Europe.

2. Mainstreaming monetary finance before and after COVID-19

The debate about more outright (quasi-)fiscal action on behalf of central banks has been gathering pace since long before this pandemic shock.[1] The protracted crisis of the Eurozone and persistent below-target inflation have nurtured the realization that more is needed beyond the acute crisis-fighting instruments of the past decade to put the EMU onto a sustainable trajectory of price stability and growth. In 2014, Pâris and Wyplosz (2014) proposed that debt restructuring through the ECB's balance sheet would be an effective way to deal with the EMU's debt overhang. Others, like Lonergan (2016), suggest that only a form of helicopter money handouts to citizens could ultimately bring inflation back to its target in the euro area, and should thus be seen as a legal *requirement* for the ECB (see also PMEU 2020a).

Against this backdrop, a much-discussed proposal by former central bankers Stanley Fischer, Philipp Hildebrand and Jean Boivin, ahead of the 2019 Jackson Hole gathering of monetary policymakers, has highlighted the extent to which **the idea of direct fiscal support by central banks has entered the mainstream of monetary theory and practice** (BlackRock 2019). With regard to theory, even workhorse Heterogeneous-Agent New Keynesian models (HANK) imply that the pursuit of monetary finance at the effective lower bound 'is, in fact, accomplishing the objective of the ECB' (Hagedorn & Mitman 2020), namely to generate price stability of 'below, but close to, 2 percent'. In practice, European central bankers like Banque de France president François Villeroy de Galhau have come to muse openly about the idea of helicopter money (FT 2020).

The gist of the Fischer/Hildebrand/Boivin proposal was that policymakers should urgently plan ahead and prepare for 'the next downturn'. Given that monetary policy had become increasingly exhausted, and that fiscal policy *alone* would likely not be enough to deal with a looming recession, an 'unprecedented coordination' between monetary and fiscal policymakers was needed to help achieve central banks' inflation targets. To this end, the authors suggested that central banks 'go direct' and be authorized to make recourse to a 'Standing Emergency Fiscal Facility' if need be (BlackRock 2019).[2] **The next crisis, it was argued, would inevitably blur the lines between monetary and fiscal policy further**, meaning that a re-organization of monetary-fiscal relations would not only be desirable, but would in fact be the only way to safeguard central bank independence in the long run (ibid.).

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[1] *See, e.g., Weber (2018). For a historical review, see Ryan-Collins and van Lerven (2018).*

[2] *The Jackson Hole paper also suggested Lonergan's (2016) helicopter money proposal to be the most likely path to implementing 'going direct' under the current EU Treaty framework.*

In the wake of COVID-19, 'the next crisis' is evidently upon us. On top of the ongoing public health emergency, the crisis poses a confluence of fundamental macroeconomic challenges to the Eurozone. Governments are faced with unprecedented spending needs in order to keep businesses and households afloat; which inevitably raises government debt levels and eventually calls the sustainability of public finances into question; all of which in the face of deflationary pressures raises the spectre of a debilitating debt deflation in Europe (Gürkaynak & Lucas 2020).

Despite the support packages already provided by the ECB and national governments, the spectre of financial instability is far from banished (Reinders et al. 2020) and the threat of prolonged fragmentation continues to loom large (Buti 2020). Accordingly, **debate about more outright fiscal support on behalf of central banks has resurfaced with full force**, as have calls for monetization by the ECB. In particular, a partial monetization of old or new debt has been argued to be more effective than traditional tax or debt finance, since these would sooner or later call governments' solvency into question (Galí 2020). Thus, monetary finance would serve to recognize *ex ante* that the avoidance of a new sovereign debt crisis would eventually fall on the shoulders of the ECB (Vihriälä 2020), as it did during the Eurozone crisis, thereby reducing the likelihood of self-fulfilling dynamics in bond markets in the first place.

Some observers have argued that **monetary finance is the key to avoiding a repetition of the mistakes of the last crisis in terms of enforcing austerity in the midst of a recession** (Yashiv 2020; Demertzis & Viegi 2020; Économistes Atterrés 2020). This course of action would delay recovery and have detrimental long-term social and political consequences for the euro area and the European project as a whole – as evidenced by the surge in populism and hard Euroscepticism in the wake of the Eurozone crisis (Macchiarelli et al. 2020). Others argue that leveraging the ECB's balance sheet for monetary finance would be more palatable than the available alternatives under discussion – such as outright fiscal transfers or joint debt issuance, both of which would constitute more far-reaching steps towards fiscal and political integration than debt monetization (Botta et al. 2020; Pâris & Wyplosz 2014; Vihriälä 2020).

3. Assessing proposals for monetary finance in the Eurozone

The emergence of a broader consensus about **the need for some form of monetary finance in the COVID-19 crisis is evidenced by an ever-growing number of proposals** from a range of European academics and think tanks. At the same time, however, these proposals tend to differ in terms of their technical design and rationale, and have thus become increasingly difficult to keep track of. For this reason, **the annex to this policy report offers an accessible overview of recent proposals and their main features in terms of technical design, rationale, legal aspects, and political and governance questions**. This overview of proposals can further be boiled down by means of creating categories with similar characteristics, which can then be compared and weighed with a view to economic, legal and political realities within the EMU.

Technically speaking, the vast majority of existing proposals can arguably be grouped into the following three categories:[3]

(a) Proposals for a cancellation of existing (i.e. 'old') debt on the ECB's balance sheet

E.g.: Pâris & Wyplosz (2014); Vihrilälä (2020); Bridonneau & Scialom (2020)

(b) Proposals for a monetization of COVID-19-related budget deficits ('new' debt)[4]

E.g.: De Grauwe (2020); Galí (2020); Kapoor & Buiter (2020); Botta et al. (2020); Couppey-Soubeyran (2020)

(c) Proposals for helicopter money-style handouts to households and firms[5]

E.g.: Lonergan (2016); BlackRock (2019); PMEU (2020); Couppey-Soubeyran (2020); Gürkaynak & Lucas (2020)

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[3] *Note that this categorization aggregates proposals which can be deemed equivalent, even if some of their technical details may differ. For instance, proposals which involve the creation of some form of perpetual debt can be found in all categories. What differs, however, is whether the creation of perpetuities would be meant to (a) replace existing debt on the ECB's balance sheet, or (b) finance new debt, or (c) credit citizens' accounts with commercial banks.*

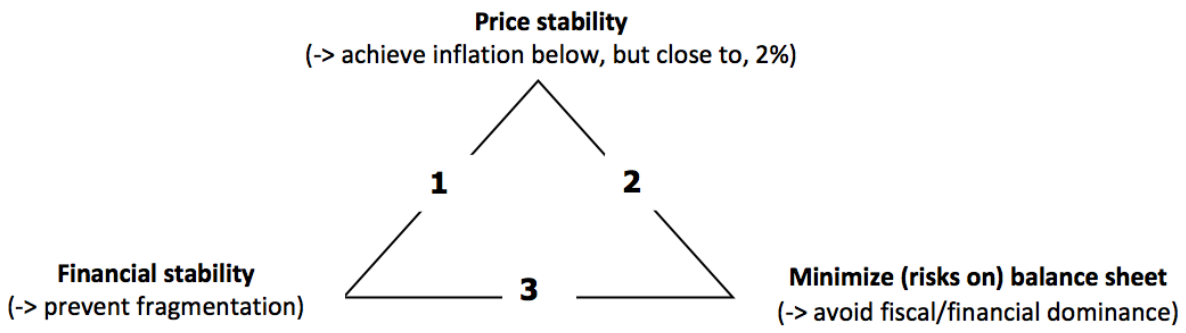
[4] *Depending on the design and use of monetary finance in this case, it can be debated whether one should speak of a monetization of (new) public 'debt' or rather of (new) public spending.*

[5] *One may further distinguish between helicopter drops to citizens/households versus firms/ banks, which is deemed beyond the scope of this report for reasons of parsimony.*

To assess these categories, the following two sections will delve deeper into both the economic and the legal/governance aspects of different forms of monetary finance in the institutional context of the Eurozone. Firstly, I will showcase the stylized trilemma which the ECB will arguably find itself confronted with (section 3.1). Secondly, I will discuss the legal design of monetary finance in light of Article 123 TFEU and recent rulings by the European Court of Justice and German Constitutional Court (section 3.2).

3.1 A stylized trilemma for the ECB – and how monetization can help resolve it

With a view to the aforementioned growing challenges, **a stylized trilemma has arguably emerged for the ECB at the zero lower bound**, in the sense that the central bank can only comply with two out of the three following imperatives: achieve price stability (to fulfil its *de iure* primary mandate); maintain financial stability (to fulfil its *de facto* post-crisis mandate); minimize (risks on) its balance sheet (to avoid threats to its *de facto* independence stemming from fiscal and/or financial dominance).



The rationale behind this is as follows. Monetary policymakers can have either:

(1) **Price stability *and* financial stability.** To achieve both of these, the ECB would need to continue net asset purchases and provide cheap credit to the financial sector. Its balance sheet would be bound to remain large and subject to a variety of risks (including interest rate and default risk). A persistently large balance sheet raises the spectre of fiscal and/or financial dominance, that is, the central bank's hand constantly being forced by market panic and/or the needs of government debt management (Diessner & Lisi 2019), calling the ECB's *de facto* independence into question.[6] This scenario may be referred to as 'QE infinity'.

[6] *Another risk pertains to the fuelling of stock market bubbles (see Cukierman 2020).*

Or

(2) **Price stability *and* minimal (risks on) balance sheet.** To achieve both of these, the ECB would need to end net asset purchases and unwind its balance sheet, resorting to interest rate-setting as the main monetary policy tool (including deeply negative interest rates where necessary). This would likely increase risks of instability in government bond markets and raise the spectre of fragmentation. This scenario may be referred to as 'narrow central banking'.

Or

(3) **Financial stability *and* minimal (risks on) balance sheet.** To achieve both of these, the ECB would need to provide direct support to member state governments, households or firms, without pursuing net asset purchases. Whether this would risk an overshoot in the ECB's inflation target depends on whether we are in an inflationary or a deflationary regime to begin with (De Grauwe & Diessner 2020). This scenario may be referred to as 'monetary finance' or 'helicopter money'.

This stylized trilemma entails two important qualifications. First, it should matter greatly whether the Eurozone finds itself in an inflationary or a deflationary regime. **In the case of a deflationary spiral – which appears likely in light of the COVID-19 crisis – monetary finance provides a way to resolve the trilemma**: a limited programme of monetization would help eliminate doubts about the sustainability of public debt (thus contributing to stability in bond markets) and provide an extraordinary boost to persistently sluggish inflation. Given that the effect of monetary finance would be permanent and amount to the respective government debt essentially being forgiven, interest and default risk on the ECB's balance sheet would be minimized as well. Second, only the pursuit of price stability and financial stability should matter economically to the ECB, while the requirement to minimize (risks on) its balance sheet is of a more legalistic and political nature, as shall be discussed in the following section.

3.2 Legal and governance aspects of monetary finance in the Eurozone

Among the chief concerns raised against any form of monetary finance in the Eurozone – not least since the recent landmark *ultra vires* ruling by the German Federal Constitutional Court – is that a monetization of deficits and debts would be illegal under the EU Treaties (which, in turn, has led a growing number of observers to call for a clarification of these Treaties). However, to assert the legality or illegality of monetary finance under European law, one needs to take into account both primary law (i.e., the Treaties themselves) and the ECB's as well as the Courts' interpretation of the Treaties (established in the OMT and PSPP rulings of the Court of Justice of the European Union (CJEU) and to some extent also the German Federal Constitutional Court (Bundesverfassungsgericht)).[7]

In terms of primary law, the often-invoked Article 123 of the Treaty on the Functioning of the European Union (TFEU) is remarkably clear. It explicitly prohibits '[o]verdraft facilities or any other type of credit facility with the European Central Bank or with the [national] central banks' for EU institutions and member states, as well as 'the purchase directly from them (…) of debt instruments'. By the same token, Article 123 does not explicitly prohibit transfers by the ECB to EU institutions, national central banks or governments, which are neither any conceivable form of *credit* (not least because they would not have to be repaid) nor entail any kind of *purchase* on behalf of the ECB (Kapoor & Buiter 2020). Also, Article 123 expressly does not prohibit the purchase of debt instruments on secondary markets, as has been practised by the ECB ever since the launch of the Securities Markets Programme in 2010, and as it continues to practise under the PSPP and PEPP programmes today.

Monetary policy operations of this sort would, however, require the ECB to adjust its limits on asset purchases, which currently only foresee maturities of up to 30 years and 364 days (ECB 2020a). This takes us into the realm of monetary policy design by the ECB and its reaffirmation by the Courts. **Thus far, the CJEU has repeatedly ruled in favour of the design of existing ECB policies, while emphasizing certain conditions to be met for bond purchases to be compliant with Article 123**. These conditions are meant to ensure: no certainty around which bonds are purchased and when; no disincentives to sound budgetary policies by the member states; and no certainty around holding bonds to maturity (CJEU 2015).

[7] *This section draws on the discussion in De Grauwe and Diessner (2020).*

In light of the wording of Article 123 and the above conditions, there is no pressing reason *a priori* for which the Court would have to rule against a form of monetization that:

(i) is designed to respect the prohibition on credit facilities and direct purchases of debt instruments;

(ii) is justifiable in terms of the ECB's primary objective of price stability, or the fulfilment of secondary objectives without prejudice to price stability;

(iii) entails a degree of uncertainty with regard to which debts, if any, are monetized and when.

What provides support for this view is the already existing practice of rolling over public sector bonds bought under the PSPP on the Eurosystem's balance sheet, which – if continued into the future – arguably amounts to a legal but implicit form of monetary finance (Blanchard & Pisani-Ferry 2020).

Apart from the CJEU, Germany's Federal Constitutional Court has in the past sought to harden the limits placed on ECB policies, most prominently in its recent pronouncement on the PSPP (Bundesverfassungsgericht 2020). While the court has asserted that the ECB failed to prove the 'proportionality' of the programme (and that Germany and the CJEU should have challenged the ECB in this regard),[8] it has notably not deemed the programme to be in breach of Article 123 *per se*, as long as bond purchases are conducted in accordance with the ECB's issuer limits and capital key, among others. If one were to take this pronouncement into account, then an additional feature of some form of monetary finance would presumably need to be that a monetization of government debts in the euro area:

(iv) corresponds to the ECB's capital key.[9]

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[8] *The request to ensure sufficient 'proportionality tests' could arguably be met by means of improving central bank accountability on behalf of the ECB as well as the national central banks. See Collignon and Diessner (2016), Jourdan and Diessner (2019) and Diessner (2020).*

[9] *The Bundesverfassungsgericht (2020) ruling also implies that bonds are not to be held indefinitely, which would have some impact on condition (iii) above. Overcoming potentially hard constraints on issuer limits, in turn, might require avoiding issuance in the first place, e.g., by means of transfers, as implied by Kapoor and Buiter (2020). An increase in the size of the ECB's liabilities might then have to be offset against future profits (cf. Cukierman 2020).*

Given that the macroeconomic shock triggered by the COVID-19 pandemic has affected all euro area member states to a significant degree, a monetization of the projected 2020 euro area deficits would, in fact, correspond closely to member states' shares in the capital key (see De Grauwe & Diessner 2020).

In light of this discussion, **certain proposals – and indeed certain categories of proposals – appear more likely to be deemed compatible with EU law than others** (for a full overview, see the annex attached to this report). Primary law, for instance, remains broadly silent on (zero-coupon) TLTROs to the private sector and expressly permits purchases on secondary markets. A partial cancellation or conversion of existing debts on the ECB's balance sheet, in turn, might potentially be accepted by the CJEU, but is highly unlikely to be accepted by the Bundesverfassungsgericht, which suggests that debt cannot be held indefinitely by the ECB. Thus, and in case handouts to households and/or firms are to be avoided in light of efficiency and governance concerns (such as granting too much influence to private banks), the safest bet might well be for the ECB to purchase some form of perpetuities on secondary markets (De Grauwe 2020), provided that there is sufficient uncertainty around which purchases are undertaken (and when) and whether bonds would be held indefinitely or not. In any scenario, a clear rationale linking monetization to the ECB's mandated objectives would be required. Finally, compliance with the ECB's capital key (and perhaps even the issue share and issuer limits) would presumably need to be achieved in order to stand a chance of satisfying the Bundesverfassungsgericht (to the extent that this is the stated aim). In the long run, however, a revision of Article 123 TFEU seems unavoidable (see Positive Money Europe 2020b), as discussed further below.

More fundamentally, perhaps, **an objection to monetary finance by any central bank is that once this step has been taken, it will be difficult if not impossible to refrain from making recourse to it again in the future** (see, e.g., Coeuré in Les Échos 2020). The ECB, however, is the most independent central bank in the world, and it is hard to imagine how any government – nor any national constitutional court, it seems – could possibly force its hand. Independence, then, is not a matter of never financing governments ever, but of being able to choose when or when not to, in light of changing economic circumstances. Thus, while the legal hurdles to *enter* into some form of monetary finance are commonly argued to be particularly high in the Eurozone (an allegation addressed above), the ability to *exit* from monetary finance is arguably more credible in the Eurozone than anywhere else – thereby refuting a major objection against entering in the first place.

4. Conclusion: Towards an honest and effective debate about monetary finance

Like many contemporary debates, the question of monetary finance has become polarized, with some suggesting that monetization is a cost-free panacea, while in the eyes of others this amounts to magical thinking (Économistes Atterés 2020; Pisani-Ferry 2020a; Banque de France 2020; De Grauwe & Diessner 2020). A serious consideration of the merits and drawbacks of monetary finance needs to start by recognizing the scale of the challenge at hand as well as the trade-offs inherent in different macroeconomic policy arrangements. This policy report has sought to take stock of these debates and to facilitate an honest and effective exchange of views about the need for monetization post-COVID-19, by means of systematizing and assessing the benefits and drawbacks of different proposals for monetary finance within the existing legal and political constraints of the EMU, and against the backdrop of a stylized post-pandemic trilemma which has emerged for the ECB.

Monetary finance should neither be tabooed nor taken lightly. Much rather, it ought to be taken seriously by euro area policymakers. If the Eurozone shows signs of a deflationary spiral, and if collective fiscal efforts fall short, a monetization of deficits needs to be part of the conversation.

Looking beyond the acute challenge posed by the COVID-19 crisis, **a revision of the EU's Treaty framework appears increasingly necessary in order to resolve the tensions which have built up between the legal basis of the EMU and its economic reality.** The overwhelming echo of the recent Bundesverfassungsgericht ruling has been that the euro area cannot continue with business as usual *ad infinitum*. This holds true not only for member state governments (Pisani-Ferry 2020b), but also for the ECB (see Tooze 2019; Braun et al. 2020). A strategy of 'PEPP-and-QE infinity' is bound to yield diminishing returns and would not resolve the trade-offs that the ECB is increasingly running up against. A re-think of the supranational central bank's mandate thus seems warranted, and should be reflected in the ECB's ongoing strategy review. Amongst other things, the post-COVID-19 debate creates space for a serious reconsideration of Article 123 TFEU, not least in order to clarify that certain forms of monetary finance can be permissible in unusual and exigent circumstances – of which the deepest recession since World War II certainly constitutes a case.

Annex:

Comprehensive overview of proposals for monetary finance

Proposal by	*Name*	*Rationale*	*Non-EMU proposals*	*EMU technical design*	*EMU legal aspects*	*EMU political and governance aspects*
Pâris & Wyplosz (2014)	PADRE	Debt restructuring		Swap existing debt into zero-coupon consols held by the ECB (amounts to debt forgiveness on the ECB's balance sheet), to be counterbalanced by not distributing profits in the future	**Treaty:** Might be legal as long as debt purchased through secondary market **CJEU conditions:** Might be legal as long as no certainty over which (new) debt purchased and restructured **BVerfG conditions:** Likely not acceptable, since ruling implies debt needs to be sold off eventually by ECB	'Politically acceptable' (at least according to its title)
Lonergan (24/02/2016)	Legal helicopter drops	Achieve inflation target		Perpetual, zero-coupon targeted longer-term refinancing operation for bank loans to each adult citizen	Presumably legal and in compliance with Art. 123 since no government (debt) involved, but would depend on whether there is a clear price stability rationale, among others (No legal precedent in court rulings)	Might raise concerns related to efficiency (would need to distribute a lot of resources to reach those who spend it) and potentially problematic role for banks as intermediaries Central bank income should not be affected as balance sheet increases on both assets and liabilities side, according to proposal

Proposal by	*Name*	*Rationale*	*Non-EMU proposals*	*EMU technical design*	*EMU legal aspects*	*EMU political and governance aspects*
BlackRock Bartsch, Boivin, Fischer, Hildebrand (08/2019)	'Going Direct' (direct CB transfers to private or public accounts, to be created 'before next crisis')	Monetary policy exhausted + fiscal policy alone not enough = coordination to achieve inflation target needed Next crisis will inevitably blur line between monetary and fiscal policy (further), reorganisation thus necessary and in fact only way to save CBI	'Standing emergency fiscal facility' (SEFF) to be funded, activated and terminated by central banks (but decision on establishing it is taken by fiscal authority)	Perpetual, zero-coupon targeted longer-term refinancing operation (TLTRO) for bank loans to each adult citizen (Lonergan 2016)	See Lonergan (2016) above (As regards 'unprecedented coordination', only seeking or taking *instructions* is prohibited by the Treaties, but BVerfG seeks to maintain strong distinction between monetary policy and 'economic' policy)	See above (Lonergan) (Only very limited coordination between ECB and Eurogroup happening thus far. Stark separation between monetary and fiscal policy deeply entrenched due to incomplete EMU with no central fiscal authority)
Galí (17/03/2020, based on a 2019 paper)	Helicopter money: the time is now	More effective than tax or debt finance, which would sooner or later call governments' solvency into question	Direct, unrepayable funding by the central bank (voluntary/at its discretion) of the additional fiscal transfers deemed necessary	Central bank to credit government account(s) for the amount of additional transfers and duration of programmes. (Equivalent to purchase of government debt followed by immediate writing-off, thus no longer having impact on government liabilities.)	**Treaty:** Credit facilities for governments illegal; For debt write-off, see Pâris & Wyplosz (2014) above **CJEU conditions:** For debt write-off, see Pâris & Wyplosz (2014) above **BVerfG conditions:** For debt write-off, see Pâris & Wyplosz (2014) above	('Would be captured by a reduction in the central bank's capital or by a permanent annotation on the asset side of its balance sheet … should not have impact on CB profits, especially if the interest rate on reserves were to remain at zero.')

Proposal by	*Name*	*Rationale*	*Non-EMU proposals*	*EMU technical design*	*EMU legal aspects*	*EMU political and governance aspects*
De Grauwe (18/03/2020, 21/03/2020)	The ECB Must Finance COVID-19 Deficits	Avert a self-perpetuating deflationary spiral now before too late	Prepare to buy bonds in primary markets (i.e. issue money to finance budget deficits), thereby relieving governments from burden of issuing new debt	Perpetual bonds issued by governments, bought by banks and kept on balance sheet for some time, then bought by ECB on secondary market at its discretion	**Treaty:** Purchases on secondary markets legal **CJEU conditions:** Need to ensure uncertainty around which bonds purchased/ held and when **BVerfG conditions:** Potentially acceptable if in line with capital key, but possible difficulties with issuer limits and alleviating member states' budgetary policies. Need proportional and clear monetary policy/ price stability rational	'As soon as the deflationary dynamic had been stopped, the ECB could halt its monetary financing' (ECB's independence should ensure that this is more feasible than elsewhere) (More effective and democratically legitimate for governments to do the spending than ECB via handouts to citizens)
Yashiv (26/03/2020)	Breaking the taboo: The political economy of COVID helicopter drops	More effective than conventional tax or debt finance (see Galí) and avoids post-crisis austerity	1) Legislature to authorise central bank to conduct helicopter money for 90 days, renewable on request by central bank and can be terminated any time 2) COVID policy committee (drawn from CB, Treasury, and experts) decides how to implement		1) 'hard to see' in EMU according to author (the agreed legislation must trump previous laws prohibiting monetary finance, which basically amounts to Treaty change) 2) 'may be feasible' according to author	Would render helicopter money/ monetary finance more democratically accountable and legitimate than leaving it to the central bank (or to central banks and governments) alone

Proposal by	*Name*	*Rationale*	*Non-EMU proposals*	*EMU technical design*	*EMU legal aspects*	*EMU political and governance aspects*
Positive Money Europe Jourdan (30/03/2020)	Heli-copter money in response to the COVID-19 recession in the Eurozone	Transfers to all citizens financed by ECB would be most effective means of stimulating economy and achieving inflation target without raising debt burdens		ECB to pre-announce helicopter money as soon as possible, but only trigger payments during recovery phase. Banks to be obliged to offer free-of-charge overdrafts to all customers, to the equivalent amount of future ECB transfers (e.g. €1,000 per citizen)	See Lonergan (2016) above	While Treaties would permit unilateral and autonomous implementation of helicopter money, a politically coordinated approach with EU institutions and member states would greatly facilitate deployment and legitimacy of policy
Kapoor & Buiter (06/04/2020)	Policy-makers must move fast and break taboos	Crisis can bring unprecedented breakdown in the normal channels of transmission of monetary policy ('Any hesitation in throwing everything but the kitchen sink at the health, employment, state aid and financial rescue interventions will kill citizens and economies')	Immediately credit the government account at the central bank with the 20%-30% of GDP that the crisis will cost, and provide some of it to developing countries (e.g. around 5%)		**Treaty:** According to authors, helicopter drops or transfers are not credit or overdraft facilities, and a one-off ECB extraordinary dividend payment to national central banks would not be prohibited (which implies repayment through future profits) **CJEU conditions:** Need price stability rationale (and uncertainty) **BVerfG:** Ruling implies no (permanent) risk/loss-sharing acceptable	'Governments are the insurers, lenders, spenders and suppliers of last resort. The risks for them to do too little, too late far outweigh the risks of them doing too much too quickly'

Proposal by	*Name*	*Rationale*	*Non-EMU proposals*	*EMU technical design*	*EMU legal aspects*	*EMU political and governance aspects*
FEPS Botta Caverzasi Russo (13/04/2020)	Debt moneti-zation (and EU recovery bonds)	Finance crisis-fighting efforts and avoid sluggish recovery (as a package, together with jointly issued recovery bonds)		Emergency spending (past and future) by Eurozone governments to be certified by the European Commission based on shared rules. Prohibition for ECB to buy debt on primary markets to be lifted (temporarily), and then debt to be written off. Alternatively, creation of a Public Special Purpose Vehicle (PSPV) aimed at buying bonds from governments on primary markets and indirectly passing them to ECB by issuing liabilities that ECB can purchase. Maturing bonds issued during emergency to be automatically rolled over (effectively becoming 'consols')	**Treaty:** Debt purchase on primary markets illegal. Article 123(2) ambiguous about purchase from public banks (but direct purchase from them presumably illegal as well?) **CJEU conditions:** Need price stability rationale and to ensure uncertainty around which bonds purchased/ held and when **BVerfG conditions:** Likely not acceptable, since ruling implies debt needs to be sold off eventually by ECB	'Overcomes political problem of mutualization of public debt. Insofar as ECB monetizes and writes off emergency-related issuances of public bonds by all Eurozone Member States, there won't be any creation of new (public) debt instruments and, hence, there would be no need for a joint guarantee of public debt.' Also demonstrates that no financial speculation on government bonds would be acceptable during this emergency

Proposal by	*Name*	*Rationale*	*Non-EMU proposals*	*EMU technical design*	*EMU legal aspects*	*EMU political and governance aspects*
Vihriälä (15/04/2020)	Debt conver-sion/relief by ECB	Create fiscal space by lowering debt burden (avoidance of a new debt crisis would fall onto the ECB's shoulders anyway, but question over how far it can deviate from capital keys)		Convert a fraction of sovereign debt held by E(S)CB into perpetuity with zero coupon (e.g. with the aim to lower all pre-COVID debt ratios by around 10% of GDP) 'If the conversion took place in relation to the capital key, it would not involve any direct transfers between member states'. In return, member states don't get central bank profits for a long time	**Treaty:** See Pâris and Wyplosz above **CJEU conditions:** See Pâris and Wyplosz above. ('Arguably raises inflation expectations and thus contributes to fighting off deflation threat and thus maintains price stability') **BVerfG conditions:** Relation to capital key good. But still likely to be not acceptable, since ruling implies debt needs to be sold off eventually by ECB	'Creates expectations that the same could happen again in the future. (…) should be weighed against what is likely to happen without such relief. Either fiscal expansion would fall badly short of what is needed (…), or it would be financed by ever-increasing asymmetric ECB bond purchases (…) Compared with this perspective, political and legal difficulties of debt relief should not be insurmountable.'
Terra Nova Bridonneau Scialom (18/04/2020)	Public debt cancel-lation by the ECB (transla-ted from French)	Avoid a rise in debt-to-GDP ratios and spur future-oriented investment		ECB to partially cancel member state debt on its balance sheet, and to condition cancellations on commitments to future-oriented investment (1-to-1) (identified, for example, by the European Parliament)	**Treaty:** See Pâris and Wyplosz above **CJEU conditions:** See Pâris and Wyplosz above **BVerfG conditions:** See Pâris and Wyplosz above	Involvement of the European Parliament would improve democratic legitimacy (but its remit is the entire European Union, not only the euro area)

Proposal by	*Name*	*Rationale*	*Non-EMU proposals*	*EMU technical design*	*EMU legal aspects*	*EMU political and governance aspects*
Veblen Institute Couppey-Soubeyran (02/05/2020)	Heli-copter money to combat economic depress-ion in the wake of the Covid-19 crisis	To avoid recession and reduce the social costs of the crisis, Europe needs an innovative monetary policy that is as coordinated as possible with fiscal aid packages (ideally tied to investments towards an ecological transition), without increasing public debt levels and without the delay and transmission failures of financial markets		First stage (crisis phase): Finance government expenditure through base money creation Second stage (recovery phase): Payments to households (e.g. €140 per month) and firms, financed through base money creation	For financing government expenditure (e.g. by means of direct transfers), see Kapoor & Buiter above For transfers to households/firms (e.g. through perpetual TLTROs), see Lonergan (2016) above	Transfers to households and firms should be uniform so as to avoid redistribution through monetary policy Negative central bank capital should be a small price to pay for an effective monetary-fiscal policy in response to the crisis

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