

OPINION

The message in the ruling

The German Constitutional Court's ruling on the ECB's asset purchase programme is open to much criticism but it can hardly be blamed for raising an important question.

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From its pretence to establish itself as a custodian of the custodians to the narrowness of its perspective on central bank policy and the parochial assessment of the distributional consequences of monetary decisions, there is much to criticize in the ruling by the German Constitutional Court on the asset purchase programme initiated by the ECB in 2015. But it can hardly be blamed for raising an important question.

Europe's central bank was born with the precisely defined mandate of preserving price stability. Over the years, however, the ECB was given new missions, as for banking supervision, or it took on new roles, as when Mario Draghi famously said that it would do "whatever it takes" to prevent a break-up of the euro. Until the 5th of May everything suggested that the coronavirus crisis would end up having been a further reason for expanding its mission.

For European leaders unable to agree to create a budget or a meaningful solidarity fund for the euro area, it was expedient to let the ECB contain interest rate spreads and mutualise risk through its balance sheet. Having relaxed quantitative benchmarks, the central bank was able to expand its government bonds portfolio and change its composition. It thereby created

fiscal space for Italy at a time when Rome desperately needed it to fight off the health crisis and its economic consequences. Until the bombshell came.

It has been a longstanding view of German constitutional judges that whilst monetary policy decisions are delegated to an independent institution, actions that have a fiscal character must remain the exclusive prerogative of elected parliaments.

The distinction is a subtle but an important one when assessing bond purchases by the ECB: when it uses them to lower interest rates across the board, it fulfills its monetary policy mission; same also when it prevents nervous markets from triggering self-fulfilling debt crises; but things would be different if it were to pile up bonds issued by specific governments to contain the rise in bond spreads triggered by heightened solvency fears.

This is an old controversy. It erupted already in 2010 when the ECB started buying Greek debt. It was given a temporary solution with the launch of the (never activated) OMT programme in 2012. And it came back after Christine Lagarde said on 12 March that the ECB was “not here to close spreads” – before retracting precipitously in the following hours.

There are very good arguments to support the relaxation of ECB self-imposed limits to asset purchases decided on 18 March. These limits were largely arbitrary. But the Karlsruhe ruling has made the ECB lose some of its magic. What the German judges are telling European leaders in their lopsided way is that decisions for which they ought to take ownership should not be delegated to an unelected body.

This is an uncomfortable truth. But time has come for EU and its member states to face it.

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🏷️ GERMANY 🏷️ KARLSRUHE RULING

🏷️ MONETARY POLICY

🏷️ OUTRIGHT MONETARY TRANSACTIONS (OMT)
