

## Economic policy in the rough: A European journey

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*“I’ve seen things you people wouldn’t believe [...] All those moments will be lost in time, like tears in rain.”*

*Blade Runner, directed by Ridley Scott (1982)*

In this Policy Insight, I attempt to give a sense of my long-lasting experience – between 2008 and 2019 – as Director General for Economic and Financial Affairs (ECFIN) at the European Commission. As this journey has revolved around the economic and financial crisis in Europe, I chose the title “Economic policy in the rough” and the above quote from Ridley Scott came to mind.

This encapsulates both a sense of my journey through the Euro crisis, as well as my policy conclusions. Out of these 11 years at ECFIN, I selected ‘moments of the Ridley Scott type’ for this article – past episodes that I think are relevant to interpreting the policy predicament today and in the future. Some of these moments are well known to have been pivotal – others are less prominent, but in my interpretation were crucial nonetheless.

The moments I have chosen are Latvia asking for financial assistance in 2008, the G20 meeting in Toronto in 2010, the Deauville meeting later that year, Mario Draghi’s speech at Jackson Hole in 2014, and – as an extended moment – the developments in Greece, starting in 2010 with a recognition of the fiscal problem, the ‘Grexit’ debate in 2015, and Greece successfully exiting the programme in August 2018.

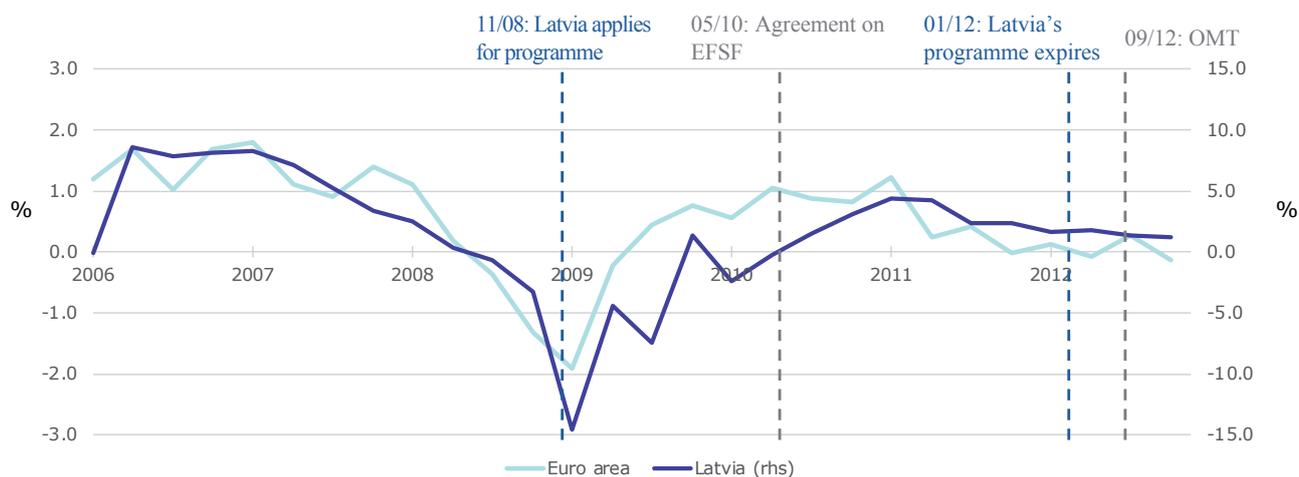
I will give a brief snapshot of what happened at each moment, and then focus on the lessons to be drawn from them. At the end, I will attempt to tie everything together to derive insights for the future of Economic and Monetary Union (EMU) and the desirable policy mix.

### Moment one: Latvia and the other Baltics – a prequel to the crisis

The first moment occurred prior to the euro area crisis, and can be seen as its prequel. In the mid-2000s, eastern Europe, and the Baltics in particular, exhibited strong economic performance (leading to the term ‘Baltic tigers’) which was fuelled by a ‘catching-up effect’ as well as capital pouring into the countries, a credit expansion and housing bubbles. The reckoning came towards the end of 2008, in the form of sudden capital flow reversals and the need to enact drastic adjustment programmes. I single out Latvia (see Figure 1) since it was the most affected: a slowdown had already begun in 2007 due to rising inflation and loss of competitiveness, as well as tightening credit that reflected banks’ increasing concerns regarding their loan portfolios (Blanchard et al., 2013). In 2008, as the world was hit by the financial crisis, there was a sudden capital reversal, a credit crunch and a sharp drop in exports. On 8 November, the Latvian government announced it was buying 51% of Parex Bank, the largest domestically owned bank. The country was forced to apply for an IMF–EU Balance of Payments (BOP) assistance programme a few weeks later. As part of the programme, Latvia implemented an unprecedented fiscal adjustment and a wide-ranging set of reforms while retaining the exchange rate peg to the euro, which allowed it to exit the programme in the beginning of 2012. The deep structural adjustment proved very painful, but allowed the country to correct the large imbalances and laid the foundation for the subsequent strong growth.

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Figure I GDP growth in Latvia and the euro area



Source: Eurostat

I think four lessons can be crystallised from the developments in Latvia and the Baltics:

1. *Financial crises even in small countries can have pervasive effects and a high potential for contagion.* This contagion risk was not perceived at the time. I vividly remember a conference call with member states and the IMF on Latvia in which I raised the issue of contagion to the rest of the Baltics and eastern European countries. The reply at the time was that any risk of contagion could be tackled via individual IMF BOP programmes for all countries concerned. But this country-by-country approach is clearly not suited to preventing contagion; at the time, the risk of contagion was not fully embodied in the IMF's reasoning, which has since changed substantially.
2. *The Baltics' story could have been used to inform programmes for struggling euro area countries and prioritising euro area actions.* At the time, we did not recognise that the events in the Baltics were relevant for the euro area, and hence they did not lead to deeper financial market integration and recapitalisation of banks. The proposal for creating a Banking Union had to wait for the sovereign debt crisis and was only adopted in June 2012.
3. *Sustained capital inflows embellish fiscal accounts, and bad fiscal accounts are often the effect, not the cause, of a crisis.* At the outset of the crisis, the Baltics generally had low debt and deficits. However, the fiscal accounts deteriorated

immediately and dramatically following the sudden stop. We also witnessed this in southern euro area countries, where the focus was often on the effects, not on the causes, of the fiscal imbalances.

4. *The exchange rate regime is more than a monetary arrangement.* At the outset of the crisis, the Baltic countries had various forms of fixed exchange rate regimes. When the events unfolded in 2008, we undertook wide-ranging economic analyses to determine whether the exchange rate regime should be changed or not, since the rationale for heavily 'euroised' countries to devalue the exchange rate, or move to a form of floating exchange rates, was not clear-cut. Even with our findings from investigating balance sheet effects, competitive implications, econometric simulations, and so on in the specific case of Latvia, both the case for keeping and the case for changing the exchange rate could be made. When we approached Commissioner Joaquin Almunia, who was in charge of economic and financial affairs, with these findings, he countered our exposition with "I appreciate your empirical results. Interesting, but irrelevant. I do not want to have a midsized Russian oligarch buying the country." Hence, Latvia's currency was not devalued, and we learned that the exchange rate regime has a deep (geo)political dimension. Eventually, the deep structural reforms underpinned the rapid growth when the countries exited the programs and the recovery set it.

**Moment two: The Deauville meeting on 18 October 2010**

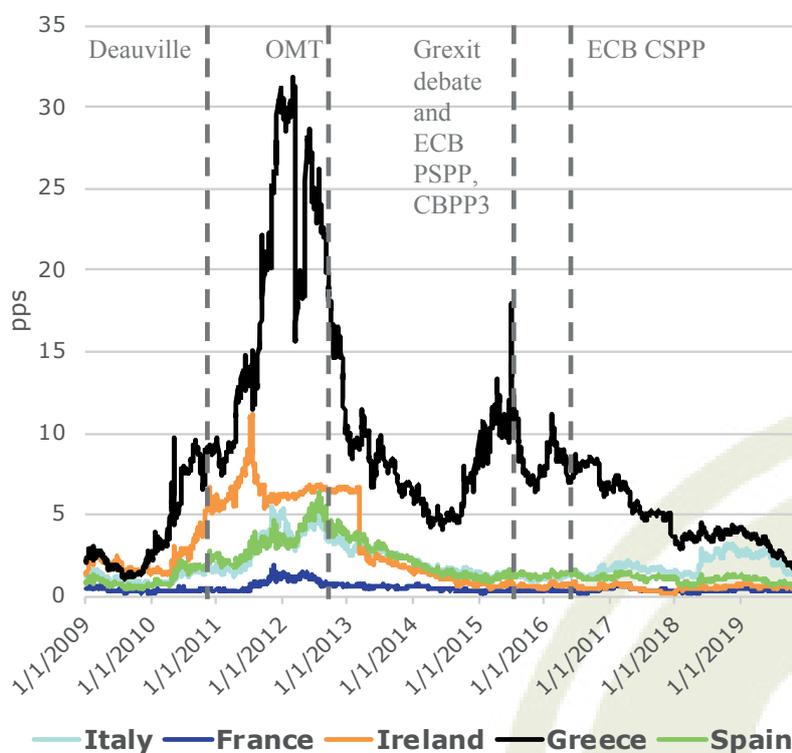
The second moment I selected is well known: the compromise struck in October 2010 between the French President, Nicolas Sarkozy, and the German Chancellor, Angela Merkel, in a meeting in the French city of Deauville, which is widely accepted as having been pivotal for the euro crisis.<sup>1</sup> Sarkozy and Merkel were hosting Russian President Dmitry Medvedev to discuss foreign policy cooperation, notably in the Middle East. But in fact, the main topic of discussion was the euro area crisis, and Merkel and Sarkozy reached a Franco-German compromise that was heavily catered to their domestic audiences (Brunnermeier et al., 2016). France would accept a tightening of the rules in the Stability and Growth Pact but with no automaticity in sanctions (the latter having been a major French demand). Germany, in turn, would accept a change to the EU Treaty to set up, by 2013 at the latest, a permanent rescue mechanism – which would become the European Stability Mechanism (ESM) – to succeed the European Financial Stability Facility (EFSF). But this was not all: Merkel also managed to extract from Sarkozy an agreement that, as of 2013, any future crisis assistance would be accompanied by the bail-in of creditors – so-called private sector involvement (PSI). There was no prior consultation

or coordination with the ECB, the euro area partners or the US. The financial markets reacted very strongly following the meeting, with the long-term treasury bond spreads of many countries widening by an unprecedented magnitude, most dramatically in the case of Greece (Figure 2), causing some scholars to describe Deauville as Europe’s “Lehman moment” (Tooze, 2018).

As with the Baltics, I would like to draw four lessons from Deauville and its aftermath:

1. *Financial markets operate according to ‘horizontal and vertical lines’.* There is no gradual pressure on borrowers, or in other words, the financial markets change suddenly from benign phases to extremes, like Greece’s treasury rate shooting up by more than 30 percentage points after having been closely aligned with those of the Bund for most of the last ten years of EMU. Hence, it is a daring undertaking to rely on markets to discipline countries.
2. *Risk-reduction measures, if they are not coupled with risk-sharing measures, can actually increase risk, instead of reducing it.* Countries who are ‘pure risk reducers’ are actually their own worst enemy: proposals such as the automatic debt restructuring may trigger ‘Armageddon’ in

**Figure 2 Euro area 10 years treasury bonds, spreads to German Bunds**



Source: Bloomberg

<sup>1</sup> Note that some scholars disagree that the Deauville meeting played a decisive role in the Euro crisis. For example, Mody (2018, pp. 273-280) attributes the widening spreads to underlying factors. Interpretations along Ashoka’s argument, however, remain a minority view.

financial markets, and result in more instead of fewer bailouts. Equally, ‘pure risk sharers’ underestimate the limited political capital for unilateral solidarity. The importance of reducing and sharing risk in parallel is topical today, for instance in the context of the completion of the Banking Union with the creation of a single deposit guarantee. As spelled out in the report by the Commission on completing EMU (European Commission, 2017), a change in regulatory treatment of sovereign exposures would need to go hand in hand with some form of euro area safe asset.

3. *EU-level decisions should be insulated as much as possible from domestic political economy considerations.* While it has proven to be highly difficult to make advances on this front, it is of great importance for the good functioning of the EU, especially on matters with potentially high relevance for the financial markets. More generally, processing everything through the ‘moral hazard lens’ does not lead to sound policies. Whilst providing the right incentives for policymaking is essential, moral hazard considerations have to be tempered by the need for urgent policy responses. This is particularly true in times of economic and financial stress, as was the case in Greece, for instance, or in the sovereign debt crisis in the euro area in 2011-12.<sup>2</sup>
4. *Not coordinating with partners and the ECB can be very dangerous.* For instance, Jean-Claude Trichet, then-president of the ECB, was convening with EU finance ministers in Luxembourg

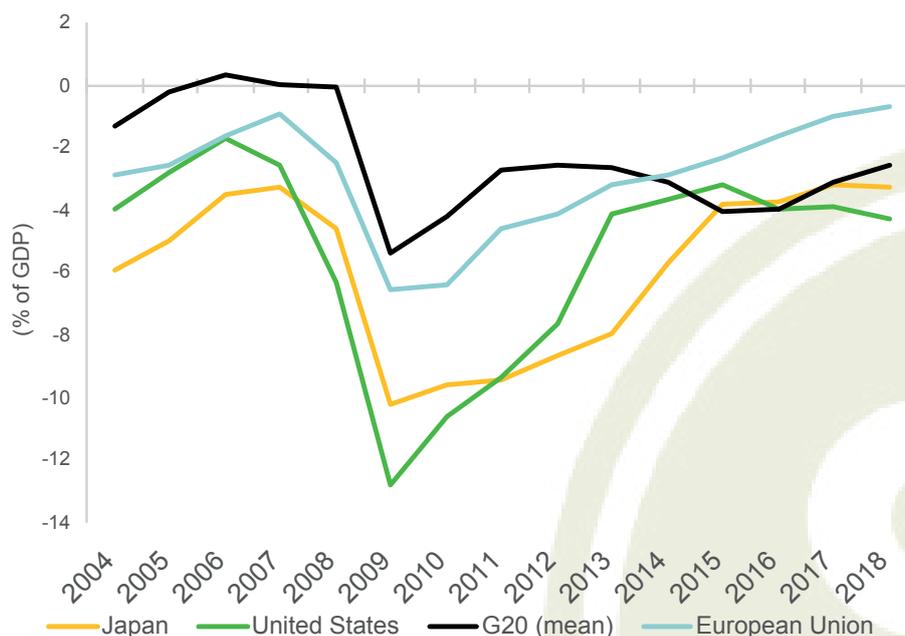
at the time and was taken by surprise by the Deauville agreement, which he immediately opposed fervently. A prior consultation of the ECB, or better encompassing financial markets’ psychology in decision making, could have led to different decisions and potentially prevented the negative fallout from Deauville.

### Moment three: The Toronto G20 Summit in June 2010

The third – and less well-known – moment is the G20 summit in Toronto in June 2010. Toronto was preceded by important summits in Washington (November 2008) at the beginning of the crisis as well as in London and Pittsburgh (April and September 2009, respectively). At these preceding summits, monetary and fiscal packages that were unprecedented in scale had been agreed to address the crisis. For example, the European Economic Recovery Plan, presented in November 2008 by the Commission, amounted to a fiscal impulse of €200 billion, equivalent to 1.5% of GDP. As a result of the discretionary fiscal stimulus, the sharp drop in GDP and the efforts to shore up the banking system, governments’ debts and deficits had ballooned; many advanced countries had seen their debt-to-GDP-ratio rise by 10-20%, and deficits (see Figure 3) had significantly increased as well.

In the months before the Toronto Summit, the global economy appeared to be on the mend: growth in emerging economies had returned to pre-crisis levels – China’s growth again exceeded 10% – while the output gap in almost

Figure 3 General government balance



<sup>2</sup> This aspect has been vividly illustrated by Tim Geithner in his memoir on the crisis management (Geithner, 2015).

all advanced economies was slowly shrinking. With this improved economic outlook, domestic considerations took priority over collective endeavours. In June 2010, most of the summit's participants were hence 'ready to declare victory'; it looked as if recovery was underway, which would allow the fiscal stimulus to be withdrawn. In particular, countries committed at Toronto to at least halving their deficit by 2013 and to stabilising debt-to-GDP ratios. The commitment to a standstill on trade measures was restated.

As shown in Figure 3, the US and Europe roughly followed through on this commitment, albeit in the context of very different GDP growth rates: in the period between 2010 and 2013, the US grew on average by roughly 2% annually, while Europe experienced a 'double dip', with growth of only about half a percentage point for the entire period 2010-2013. Ex post, it is evident that it was premature to withdraw the fiscal stimulus by committing to quantitative deficit and debt targets within a strict deadline, given that the global recovery was still too fragile and growth not self-sustainable.

The key lessons we learned from the G20 in Toronto are relatively straightforward

1. *The 'spirit of London' (i.e., a coordinated and cooperative response) was largely lost.* Instead, the efforts at the Toronto and subsequent summits were directed at bridging differences between those countries that were more 'hawkish' and those that were more 'dovish' regarding fiscal policy, but the divisions held up (Buti and Bohn-Jespersen, 2016).
2. *In the aftermath of crises, early withdrawal of fiscal support can be very damaging and lead to an unbalanced policy mix.* At the time, we did not see the increasing burden that was put on monetary policy. In particular, we did not appropriately weigh risks and costs in the trade-off between sustainability and stabilisation. This is especially true in the current low interest rate environment (Buti and Carnot, 2016), since it decreases the risk associated with new debt and makes it possible to step up public investment. I will elaborate more on this when discussing the fifth moment.
3. *Choosing the composition of fiscal support matters; not all measures are alike in their effects.* The focus used to be solely on the size of the adjustment, whereas today we recognise the importance of the quality of fiscal stimuli or retrenchments. Whenever expansionary fiscal policies are called for, we should give priority to a set of credible policy measures which, besides stimulating

domestic demand, tackle longer-term structural challenges and raise our growth potential, for example by supporting the necessary climate transition.

4. *A standstill on trade protection was restated, but protectionism started to creep in.* Measures hampering trade continued to grow over time (Lowe and Luckman, 2019), and in Toronto the first signs of the different stances across countries underlying these protectionist developments became evident.

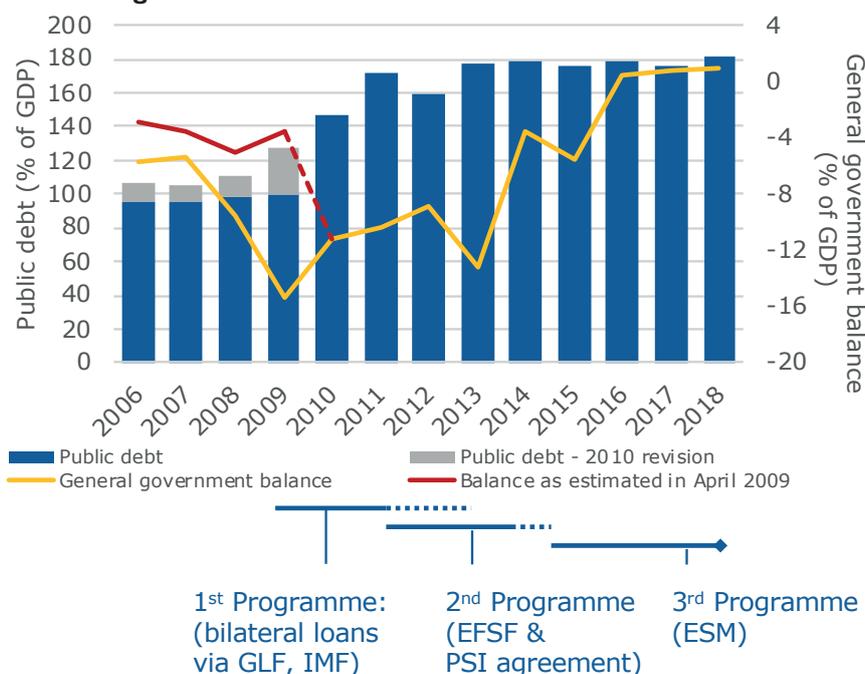
#### Moment four: Greece – a fiscal and a structural crisis

The Greek crisis is a quintessential 'extended moment', and given its duration and complexity, I can only give a brief snapshot and offer what I believe were some of the key lessons.

What determined the thrust of Greece's adjustment programme was the country's 'original sin': the dramatic revision of the Greek fiscal accounts. The deficit was announced by the Greek government in April to be 3.6% for 2009, but ex post it was revised to over 15% of GDP (see Figure 4). This revision came as a shock and resulted in Greece losing access to the markets the EU needing to intervene in the context of a generalised loss of trust. While for Latvia, as a country outside the euro area, a dedicated instrument to intervene (Balance of Payments Assistance) had been available as part of the EU toolbox, there was no such instrument for Greece. Hence, a creative, intergovernmental approach was required to respond swiftly to the acute problems. First, the Greek Loan Facility (GLF) was established in 2010 and disbursed €52.9 billion. This was succeeded by the EFSF in 2012, which disbursed €141.8 billion, and the ESM in 2015, which disbursed €61.9 billion. Overall, between the IMF and the three EU programmes, support in the form of loans amounting to €277.8 billion was provided.

Another key event was the 'Grexit' speculation in 2015, when we were but an 'inch away' from Greece leaving the euro area. Grexit was avoided and three years later, in August 2018, Greece successfully concluded the ESM programme (quite surprisingly, given its previous trajectory). Much was done to assist the country, and while one can rightly criticise the austerity at the onset of the programme as being excessive, the classic criticisms fail to acknowledge that, with all likelihood, Greece would have had to enact much harsher contractionary fiscal measures without the EU-IMF programme, given its loss of market access.

Figure 4 Deficit and GDP growth in Greece



Source: ECFIN

Lessons learned from the Greek crisis

1. *Greece's fiscal crisis affected the views on other vulnerable countries and the narrative on the euro area crisis.* The Greek fiscal woes led to looking at the other countries through a 'fiscal lens', which I believe to have been a mistake. For instance, if Ireland had come to fall before Greece, perhaps different causes for the crisis would have been diagnosed for other programme countries, events could have unfolded quite differently, and we would probably be telling an altogether different story.
2. *Any crisis in a country belonging to the euro area is likely to be of structural nature, and a classic IMF programme is unlikely to succeed.* While the grave fiscal problems were both a symptom and a cause of the crisis in Greece, they were not the entire story: Greece faced deep structural problems. Hence, a classic three-year IMF programme was less suited to the task and a longer, more comprehensive 'World-Bank-type' programme would have been more appropriate.
3. *Debt sustainability needs to be addressed in a timely, but possibly in a sui generis, manner.* When debt relief is discussed, politics and perceptions are to be reckoned with. In the discussions with EU ministers, it was evident that relieving the burden on Greece via haircuts of the principal debt was politically infeasible. Hence, as an imperfect substitute, interest rates were lowered and maturity extended, which is not substantially different in present value terms, but had a starkly different political
4. *Institutional courage is needed to tackle existential crises.* When Grexit came on the table, the Commission faced a stark choice: let member states sort it out, or get involved. It chose the latter and it was right. Here tribute must be paid to Commission President Juncker, who was repeatedly told at the time by government leaders that the Greek crisis was a question for national governments and not the Commission. Yet Juncker stated that Greece would not exit the euro area, and the Commission consistently operated to facilitate such a solution. Hence, similar to Almunia's decision not to abandon Latvia's currency peg, Juncker made a political decision with crucial economic – but also institutional – ramifications.
5. *Democratic accountability is key and the Commission cannot act as an 'agent of creditors'.* The Commission paid a hefty political price for running the Greek programme, as it was criticised from both sides of the spectrum. On one hand, the Commission was perceived as being an agent of the creditors and the enforcer of austerity – a view that was widespread and persistent among the Greek public, and led to the Commission being seen in an unfavourable light in Athens. On the other hand, the Commission was also unpopular among

governments and the public in countries like Germany, since it was perceived as being too lenient. These perceptions were unfortunate, since the Commission’s North Star was always the fundamental common interest of Europe and its citizens, although of course whether we always fully succeeded is up for discussion. The larger responsibilities in crisis management attributed to the ESM will in the future help dispel the perception of the Commission as the ‘agent’ of the Eurogroup.

### Moment five: Mario Draghi’s speech at the Jackson Hole Symposium in August 2014

The last moment I would like to highlight is a speech that Mario Draghi gave at the Federal Reserve Symposium in Jackson Hole,<sup>3</sup> Wyoming in August 2014 (Draghi, 2014). This speech has received less attention than his famous “whatever it takes” speech in London in July 2012, but its importance was recognised at the time among the community of central bankers, macroeconomic investors and policymakers (Davies, 2014). Since then, it helped to change the narrative on EMU’s policy mix. At the time, tensions in the euro area sovereign debt markets had largely subsided and economic activity had started to recover. But the

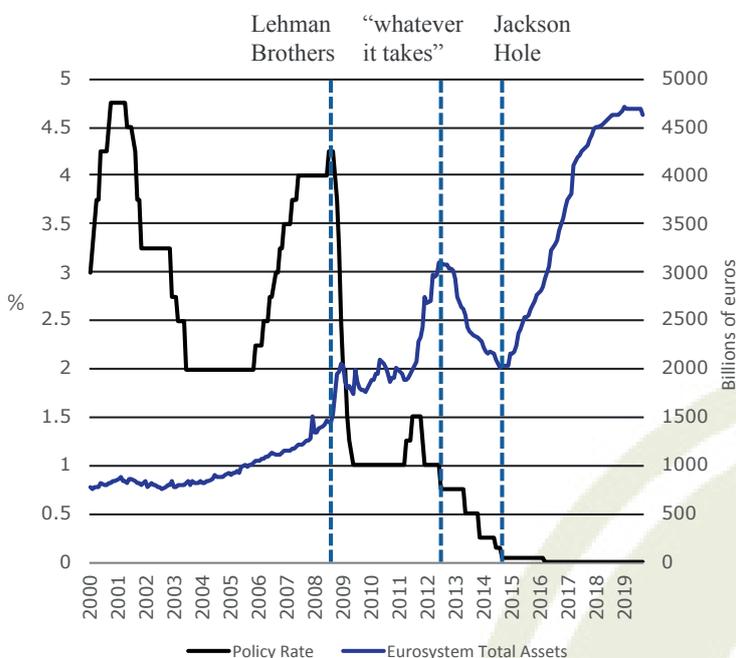
recovery looked fragile. Moreover, there were deflationary risks, inflation expectations were de-anchoring and, importantly, conventional monetary policy was largely exhausted, with the deposit facility rate having moved into negative territory in June 2014.

In his speech, Draghi advocated for a more balanced policy mix with fiscal policy playing a larger role, and for considering bolder options for monetary policy. He also warned against hysteresis effects in unemployment, as well as a lack of long-term economic cohesion in the euro area. His speech was not followed by a meaningful fiscal expansion or a stepping up of structural reform, and the ECB was forced to implement unprecedented monetary policy<sup>4</sup> (Figure 5). However, it helped to change the narrative of the post-crisis policy priorities in EMU.

#### Lessons learned from Draghi’s speech at Jackson Hole

1. *Monetary policy cannot be left alone; fiscal policy has to do its part in a swift and decisive manner.* Today, with monetary policy facing increasing side effects and diminishing returns, calls for swift and determined fiscal action, in particular by countries with fiscal space, are again being made by the ECB. In his speech, Draghi warned that “the risks of ‘doing too little’ outweigh

Figure 5 An overburdened central bank



Source: ECB

<sup>3</sup> Since 1978, an Economic Policy symposium sponsored by the Federal Reserve Bank of Kansas has been held in Jackson Hole on a yearly basis. In 2014, the topic of the symposium was “Re-Evaluating Labor Market Dynamics” (see <https://www.kansascityfed.org/publications/research/escp/symposiums/escp-2014>).

<sup>4</sup> For instance, through implementing the Targeted Longer-Term Refinancing Options (TLTRO), Asset-Backed Securities Purchase Program (ABSPP) or the third Covered Bond Purchase Program (CBPP3). Between March 2015 and March 2016, the Eurosystem’s net asset purchases averaged €60 billion. This increased to €80 billion in the following 12 months and has since been gradually reduced.

those of ‘doing too much’’. Here, a historical parallel suggests itself in a warning issued by John Maynard Keynes in an open letter to American President F.D. Roosevelt in 1933:

*“I do not blame Mr. Ickes [US Secretary of the Interior] for being cautious and careful. But the risks of less speed must be weighed against those of more haste. He must get across the crevasses before it is dark”* (Keynes, 1933).<sup>5</sup>

2. *Achieving a euro area fiscal stance only via horizontal coordination of national policies is exceedingly difficult.* In particular, it has not proven politically viable to aim at an adequate fiscal stance for the euro area as a whole solely via bottom-up coordination. When a broadly acceptable overall stance was achieved, that took place via the wrong distribution between countries in violation of the respective fiscal space. This was not fully recognised at the time, and hence Draghi did not explicitly address it in this speech. Since then, this issue has received more attention, and we have argued that a central European fiscal capacity complementing the national budgetary policies is needed to achieve the required fiscal stance for the euro area.
3. *Excessive fiscal prudence is also a form of fiscal dominance.* The logic of Sargent and Wallace’s (1981) “unpleasant monetary arithmetic” is that unless countries conduct prudent fiscal policy, the independence of monetary policy could be called into question via pressure to monetise the debt. Today, we face the opposite dynamics: in periods during which the central bank is at the effective lower bound, excessive fiscal prudence is a form of fiscal dominance hampering the effort of the central bank to fulfil its mandate. Hence, in today’s world, Sargent and Wallace’s argument is turned on its head.
4. *A certain amount of risk-sharing is needed in EMU, either via national budgets or via the ECB balance sheet.* In order to function properly, EMU – as any currency union – requires a certain amount of risk-sharing. This can either be accomplished directly via fiscal risk-sharing (via the national budgets and/or a euro area central fiscal capacity) or, in a less transparent way, via the balance sheet of the ECB. The euro area chose the latter. The limits of this choice, however, are evident today as the ECB is overburdened in fulfilling its mandate.

## Key lessons for future work on the Economic and Monetary Union

I believe the five moments I have described here bear important lessons for the next steps in the completion of the EMU architecture. They should also lead us to reflect on a better policy mix to ensure balanced and sustainable growth.

As to completing EMU, the key lessons I would draw from the five pivotal moments I have described are the following: we need to (i) complete the Banking Union, (ii) set up a European fiscal stabilisation capacity, (iii) acknowledge the geopolitical relevance of the EMU, and (iv) increase the democratic accountability of European integration. Indeed, these four conclusions are deeply rooted in how the five moments I have described here unfolded.

The crisis in the Baltics revealed the need to address the risks of financial crises and contagion channels, which was key in the rationale behind the Banking Union. Another crucial insight guiding the design of the Banking Union has been that risk reduction requires risk-sharing, which was learned from the events triggered by the Deauville meeting. Deauville moreover also epitomises the risk of ‘ultima ratio’ actions stemming from intergovernmental settings and connects to the geopolitical relevance the EMU assumes.

The fiscal stabilisation capacity, which plays a central role in completing EMU’s architecture (Buti and Carnot, 2018), is linked to multiple moments. Following Mario Draghi’s speech in Jackson Hole, it has become increasingly clear that achieving an EU fiscal stance solely via national coordination is very difficult, underscoring the usefulness of a central fiscal capacity.

There is an increasing ‘demand for Europe’ in international economic fora. In order to match this expectation, Europe need to put its acts together. In particular, the outcome of the meeting in Deauville is a clear demonstration that de jure or de facto intergovernmental settings increase the risk that decisions are taken too late and in a fragmented way. In order to develop the international role of the euro, progress will need to be made on completing EMU also in terms of governance (Acedo Montoya and Buti, 2019).

<sup>5</sup> There is at least a slight chance that Mario Draghi had John Maynard Keynes’ remarks in mind when drafting the speech, since I had sent Keynes’ letter to him in the weeks prior to the symposium in Jackson Hole.

Finally, the events during the Greek crisis and how EU actions to counter the crisis were perceived by the public revealed strikingly that progress needs to be made on Europe's democratic accountability (Schmidt, 2015). As argued in Buti and Krobath (2019), a move from the intergovernmental method, which gained ground during the crisis, towards the Community method would help in terms of both efficiency (by avoiding the curse of *ultima ratio* thanks to its majority voting) and accountability (by envisaging a role for the European Parliament and not only the national parliaments, which tend to take a 'partial equilibrium' view).

In light of the current slowdown and lacklustre medium-term growth prospects, the above moments also indicate that the fiscal, monetary and structural policy mix needs to be changed. As Mario Draghi stated in his speech in Sintra (Draghi, 2019), monetary policy needs to remain *patient*, *persistent* and *prudent*. It needs to be *patient* since the euro area has experienced repeated negative shocks which required it to extend the policy horizon. It needs to be *persistent* to ensure the sustained convergence of inflation to the target of close to 2%. And it needs to be *prudent* to be conscious of underlying causes of inflation dynamics and risks, in order to adjust policy if needed.

Fiscal policy needs to fulfil the 'three Ts' as first identified by Larry Summers (2008) – it must be *timely* in order to be effective, *targeted* by focusing on high multipliers expenditure, and (possibly) *temporary*. Before the 'secular stagnation' debate, it seemed clear that the fiscal stimulus should be temporary, but lately it has been argued that the right fiscal expansion may need to be longer lasting (Furman and Summers, 2019). While the jury is still out on the desirable fiscal trajectory in the presence of ultra-low interest rates, there is little doubt that a long-lasting boost of public investment should be undertaken. One such example would be quality investment to ease the environmental transition; here, fiscal policy and investments should be used not only in a temporary manner for stabilisation purposes, but also address a more structural need.

Complementing the Draghi's three Ps for monetary policy and Summers' three Ts for fiscal policy, I propose three Fs for structural reforms: they should be *feasible* in order to be effective instead of aiming for unrealistic targets; *forward-looking*, for instance regarding environmental issues; and *fair*, i.e. by incorporating social concerns in a structural reforms 2.0 strategy, thereby moving away from the perception of 'blood and tears' reforms.

Together, the letters spell TFP – a fitting acronym to capture today's economic and policy predicament in Europe.

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