Economic Policy in the Rough: A European Journey

*Remarks of Marco Buti, European Commission, Director General for Economic and Financial Affairs (ECFIN), at the Peterson Institute for International Economics, Washington DC, November 12, 2019**

"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)

The Peterson Institute for International Economics aims to be a point of reference for economic analysis and sound policy advice on European matters, and it has fulfilled this role in the most remarkable manner. Today, I will try to give a sense of my long-lasting experience – since 2008 – 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 quote from Ridley Scott above came to mind.

This encapsulates both a sense of my journey through the euro crisis, as well as my policy conclusions. What I present to you today, out of these eleven years at ECFIN, are selected "moments of the Ridley Scott type": 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 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 program in August 2018.

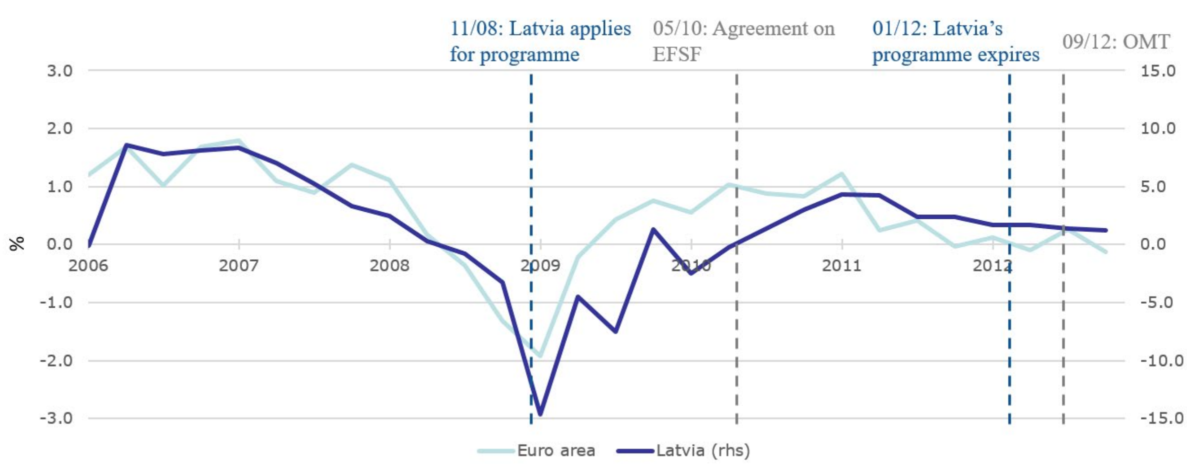
I will give a brief snapshot of what happened at each moment, and then focus on the lessons to be drawn from them. At the end, I will attempt to tie everything together to derive insights for the future of the Economic and Monetary Union (EMU) and the desirable policy mix.

* I write in my personal capacity and the expressed opinions should not be attributed to the European Commission. I would like to thank Philipp Jaeger, Maya Jolles and Nicolas Philiponnet for their help in the preparation of this article.

***Moment one*: Latvia and the other Baltics – a prequel of the crisis**

The first moment occurred prior to the euro area crisis, and can be conceived as its prequel. In the mid-2000s, eastern Europe and the Baltics in particular exhibited strong economic performance, eliciting the term "Baltic Tigers", which was fueled 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 programs. I singled out Latvia (see Figure 1), since it was the most affected: a slowdown had begun already 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 November 8th, the Latvian government announced it was buying 51% of Parex Bank, the largest domestically owned bank. Latvia was forced to apply for an IMF-EU *Balance of Payments* (BOP) assistance program a few weeks later. As part of the program, Latvia implemented an unprecedented fiscal adjustment and a wide-ranging set of reforms while retaining the exchange rate peg to the euro, which allowed Latvia to exit the program 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.

Figure 1: GDP growth in Latvia and the Euro area



Source: Eurostat

I think four lessons can be crystallized 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 have been tackled via

individual IMF-BOP programs for all countries concerned. But this country-by-country approach is clearly not suited to prevent contagion; at the time, the risk of contagion was not fully embodied in the IMF's reasoning, which since has changed substantially.

2) *The Baltics' story could have been used to inform programs for struggling euro area countries and prioritizing euro area actions.* At the time, we did not recognize that the events in the Baltics were relevant for the euro area, and hence they did not lead to deeper financial market integration and recapitalization of banks. The proposal for creating Banking Union had to wait for the sovereign debt crisis and was only adopted in June 2012.

3) S*ustained capital inflows embellish the fiscal accounts and bad fiscal accounts are often the effect, not the cause of a crisis.* The Baltics, at the outset of the crisis, had generally low debt and deficits. However, the fiscal accounts immediately and dramatically deteriorated following the sudden stop. This we witnessed as well in countries in the south of the euro area, 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 "euroized" 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 et cetera 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 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*: Deauville Meeting in October 18th 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.[1] Sarkozy and Merkel were hosting the Russian President 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

[1] Note that some scholars disagree with the Deauville meeting playing a decisive role in the Euro crisis, c.f. Ashoka Moody (2018), p. 273-280, who attributes the widening spreads to underlying factors. Interpretations along Ashoka's argument however remain a minority view.

(c.f. 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 a permanent rescue mechanism - the future European Stability Mechanism (ESM) - by 2013 at the latest, to succeed the EFSF (European Financial Stability Facility). But this was not all: Merkel managed to extract from Sarkozy also an agreement that, as of 2013, any future crisis assistance would be accompanied by the bail-in of creditors, the 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 spread of many countries widening in unprecedented magnitude, most dramatically in the case of Greece (Fig. 2), causing some scholars to depict Deauville as Europe's "Lehman moment" (Tooze, 2018).

As for 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 pps 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 financial markets, and result in more instead of fewer bailouts. Equally, "pure risks 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, namely 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.

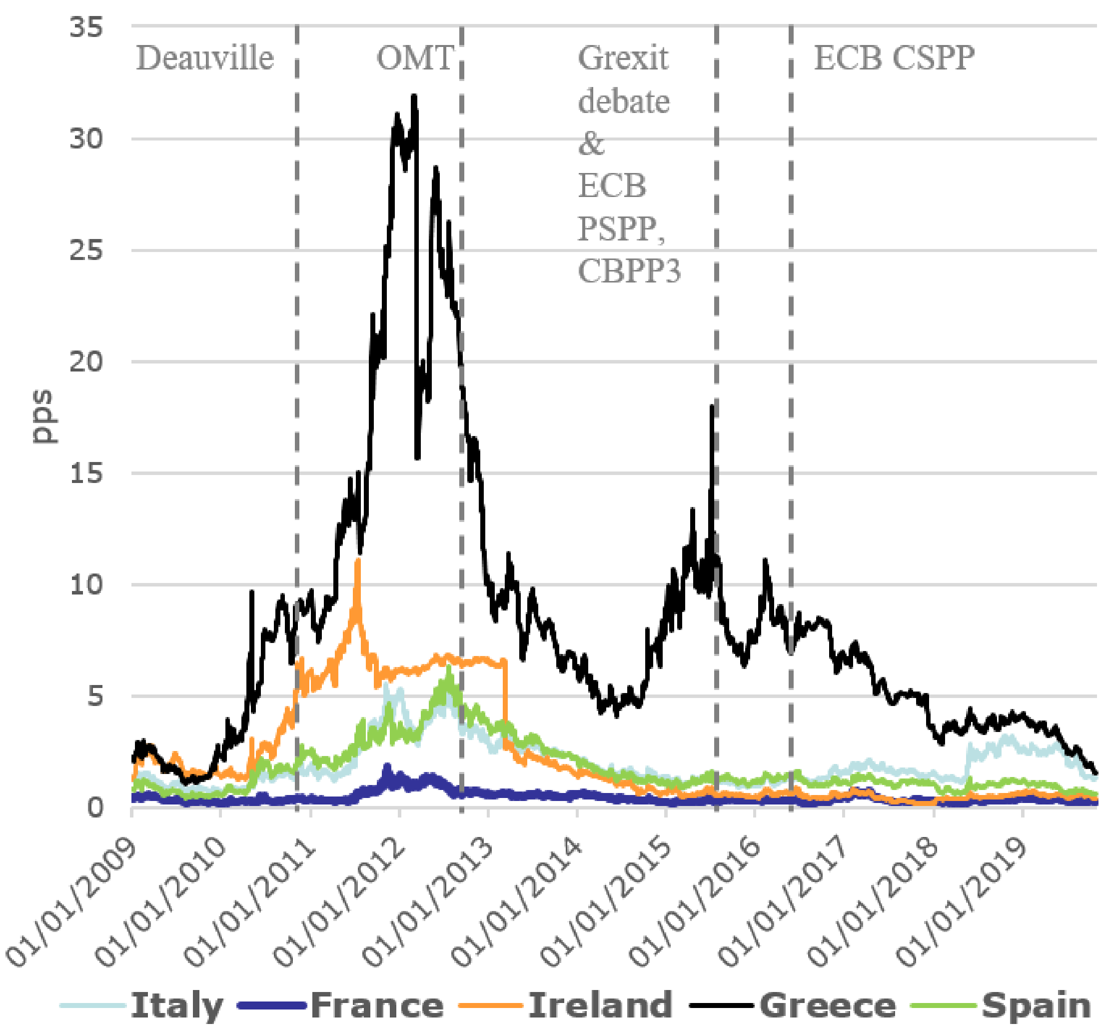
3. EU-level decisions should be insulated as much as possible from domestic political economy considerations. While it has proven to be highly difficult to advance on this front, it is of great importance for the good functioning of the EU, especially on matters with potentially high relevance for the financial markets. More generally, processing everything through the "moral hazard lenses" does not lead to sound policies. Whilst providing the right incentives for policy making 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, for instance as was the case in Greece, or in the sovereign debt crisis in the euro area in 2011-12.[2]

4. Not coordinating with partners and the ECB can be very dangerous. For instance, Jean-Claude Trichet, then the President of the ECB, was convening simultaneously in Luxembourg with the EU finance

[2] This aspect has been vividly illustrated by Tim Geithner in his memoir on the crisis management (Geithner, 2015).

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

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



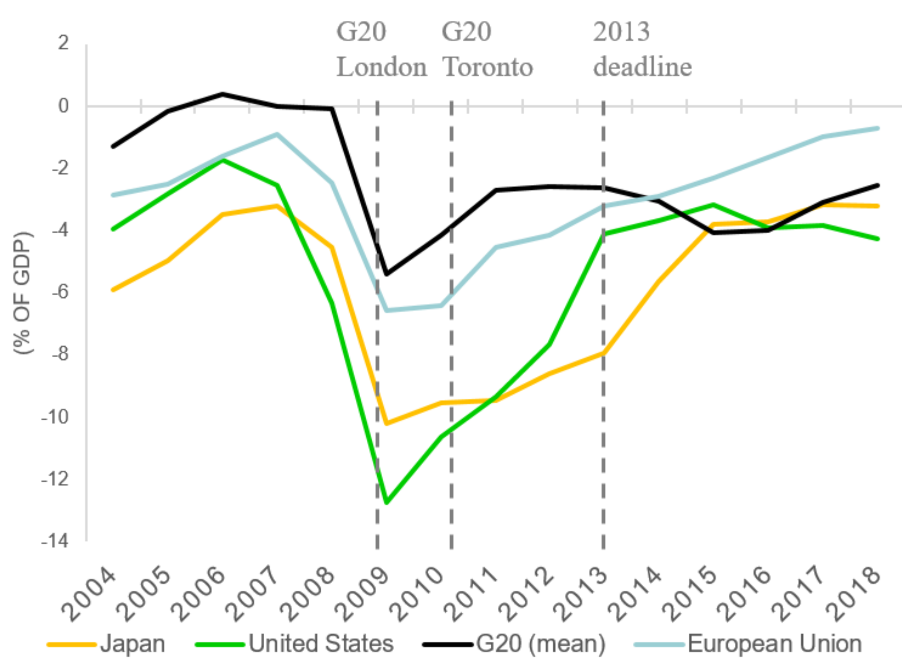
Source: Bloomberg

***Moment three*: G20 Toronto summit - June 2010**

The third moment – less well known – 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 London and Pittsburgh (April and September 2009). At these preceding summits, monetary and fiscal packages 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 EUR, equivalent to 1.5% of GDP. As a result of the discretionary fiscal stimulus, the sharp drop in GDP and the help 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 all advanced economies was slowly shrinking. With the improved economic outlook, domestic considerations primed over collective endeavors. In June 2010, most of the summit's participants were hence "ready to declare victory": it looked as if recovery was underway, hence allowing to withdraw the fiscal stimulus. In particular, countries committed at Toronto to at least halving their deficit by 2013 and stabilizing debt-to-GDP ratios. The commitment to a standstill on trade measures was restated.

Figure 3: General government balance



Source: Eurostat, IMF WEO April 2019

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 only about half a percentage point of growth 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", namely to have 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.* We did not see at the time the increasing burden that was put on monetary policy. In particular, we did not appropriately weigh risks and costs in the tradeoff between sustainability and stabilization. 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 recognize 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 s*tandstill on trade protection was restated, but protectionism started to creep in.* Measures hampering trade continued to grow (c.f. Gowling WLG Report, 2019) over time, and in Toronto first signs of the different stances across countries underlying this protectionist developments became evident.

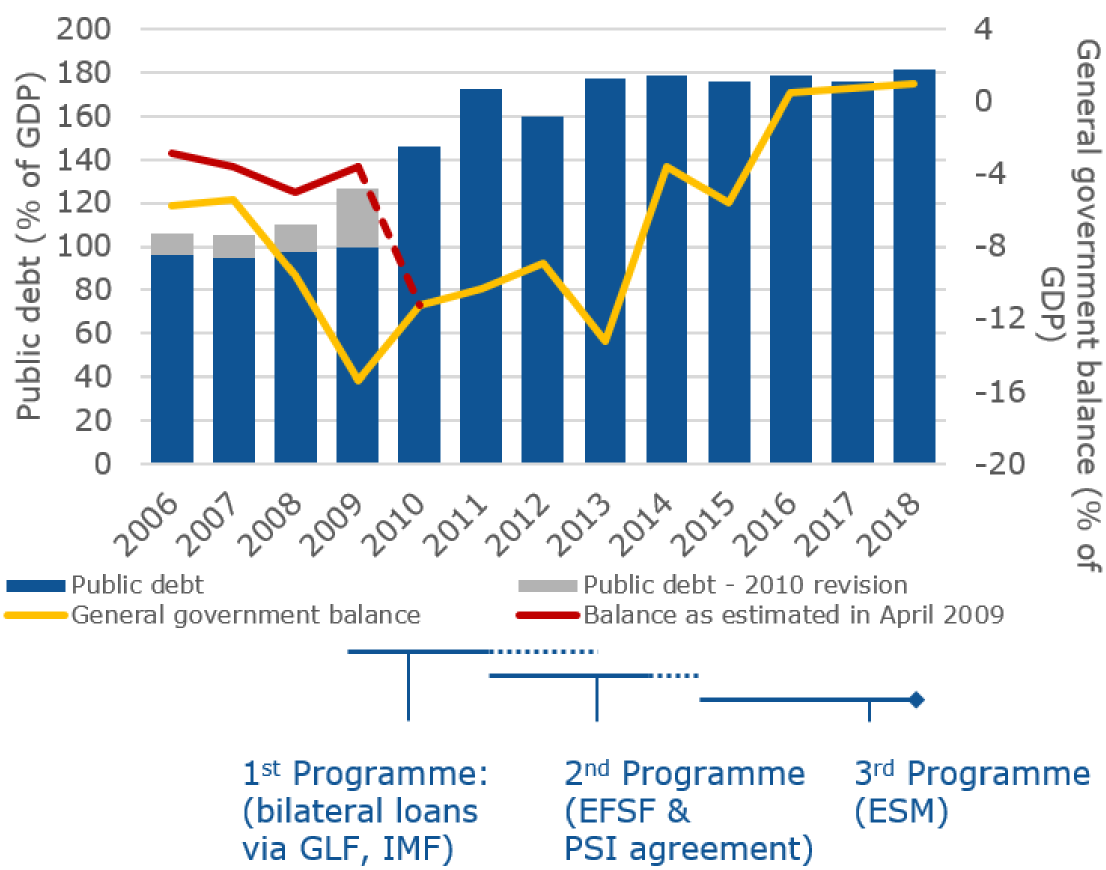
***Moment four*: Greece, a fiscal *and* a structural crisis**

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 adjustment programme was Greece'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 Fig. 4). This revision came as a shock that resulted in Greece losing access to the markets and the need for the EU to intervene in the context of a generalized loss of trust. While for Latvia, as a country outside the euro area, a dedicated instrument to intervene (the 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 which disbursed €52.9bn, succeeded by the EFSF in 2012 disbursing €141.8bn and the ESM in 2015, which disbursed €61.9bn. Overall, between the IMF and the three EU programs, support in the form of loans amounting to €277.8bn was provided.

Another key event were the "Grexit" speculations 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 – quite surprisingly, given the previous trajectory – Greece successfully concluded the ESM program. Much was done to assist Greece, and while one can rightly criticize the austerity at the onset of the programs 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 program, given its loss of market access.

Figure 4: Deficit and GDP growth in Greece



Source: ECFIN

The 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 "fiscal lenses", 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 program countries, events could have unfolded quite differently, and we would probably be telling an altogether different story.

2) *Any crisis in countries belonging to the euro area is likely to be of structural nature: a "classic" IMF programme is unlikely to succeed.* While the grave fiscal problems are 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 program was less suited to the task and a longer, more comprehensive "World-Bank-type" program would have been more appropriate.

3) *Debt sustainability needs to be addressed in 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, the interest rates were lowered and the maturity extended, which is not substantially different in present value terms, but had a starkly different political perception. The ESM estimates that Greece's budgetary savings were 6.5% of GDP, and that the implicit interest rates were lower than in Spain, Italy and Portugal since 2012, due to the extension of maturities and the low interest rates (ESM, 2019).

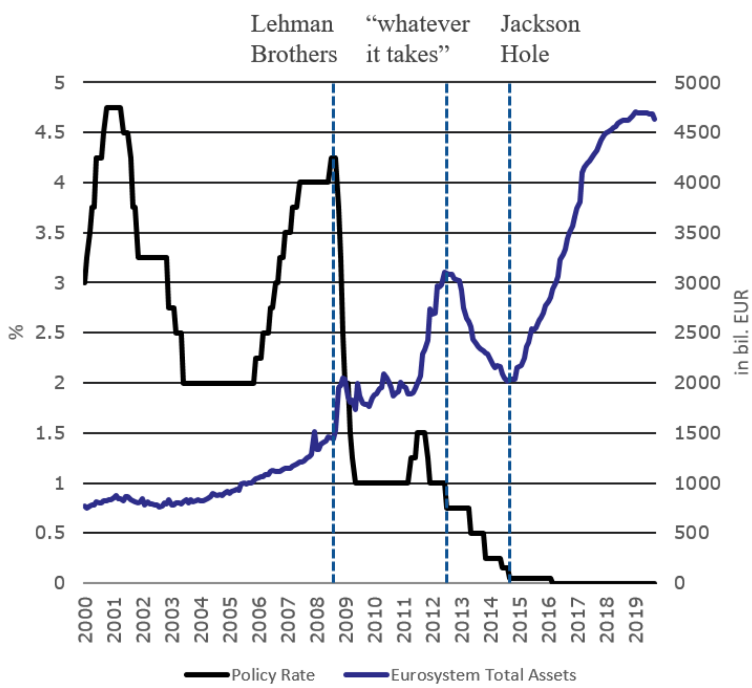
4) *Institutional courage is needed to tackle existential crises.* When Grexit came on the table, the Commission faced a stark choice: let member states sort it out or get involved. It chose the latter and was right. Here tribute must be paid to Commission President Juncker, who was told repeatedly at the time by government leaders that the Greek crisis was a question for national governments and not the Commission. Yet Juncker stated that Greece will not exit the euro area, and the Commission consistently operated to facilitate such a solution. Hence, similar to Almunia's decision to not abandon Latvia's currency peg, Juncker made a political decision with crucial ramifications, economically, but also institutionally.

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 program, since it was criticized from both sides of the spectrum: on one side, the Commission was perceived as being an agent of the creditors and the enforcer of austerity, a view that was widespread and persistent in the Greek public, and hence the Commission was seen in an unfavorable light in Athens; on the other side, 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 it is up for discussion whether we always succeeded fully. The larger responsibilities in crisis management attributed to the ESM will in the future help dispel the perception that the Commission would be the "agent" of the Eurogroup.

***Moment five*: Mario Draghi's speech at Jackson Hole Symposium - 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[3], 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 recognized at the time among the community of central bankers, macroeconomic investors and policy makers (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 and 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.

Figure 5: Overburdened central bank



Source: ECB

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

[3] Since 1978, an Economic Policy Symposium takes place at the Kansas City Fed Jackson Hole on a yearly basis. In 2014, the topic of the symposium was "Re-Evaluating Labor Market Dynamics": https://www.kansascityfed.org/publications/research/escp/symposiums/escp-2014

to implement unprecedented monetary policy[4] (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) M*onetary 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 a 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 those of 'doing too much'"– and a historical parallel suggests itself, to 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).[5]

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 recognized 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 (1981)* "unpleasant monetary arithmetic" is that unless countries conduct prudent fiscal policy, the independence of monetary policy could be called into question via pressure for monetizing 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 fulfill 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 - as in any currency union - EMU 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.

---

[4] 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, which increased to €80 billion in the following 12 months, and has since been gradually reduced.

[5] 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.

Key lessons for future work on the Economic and Monetary Union

I believe the five moments I described 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 described are the following: we need to (i) complete the Banking Union, (ii) set up a European fiscal stabilization 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 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 epitomizes the risk of "ultima ratio" actions stemming from intergovernmental settings, and connects to the geopolitical relevance the EMU assumes.

The fiscal stabilization capacity, which plays a central role in completing the 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, hence 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 inter-governmental 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 the EMU, also in terms of governance (Acedo Montoya and Buti, 2019).

Finally, the events during the Greek crisis and how EU actions to counter the crisis were perceived by the public, have strikingly revealed 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 lackluster 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 (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 fulfill the three T's, as identified first by Larry Summers (2008), namely *Timely* 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 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 stabilization purposes, but address a more structural need.

Complementing the three P's by Draghi on monetary policy and the three T's by Summers on fiscal policy, I propose three F's for structural reforms: they should be *Feasible* 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.

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

References

Acedo Montoya, L. and M. Buti (2019), "The euro: From monetary independence to monetary sovereignty", VoxEU.org, 01 February.

Blanchard, O.J., M. Griffiths, and B. Gruss (2013), "Boom, Bust, Recovery: Forensics of the Latvia Crisis". *Brookings Papers on Economic Activity,* 2013(2).

Buti, M. and H. Bohn-Jespersen (2016), "Winning the peace: The challenge for the G20", VoxEU.org, 25 November.

Buti, M. and N. Carnot (2016), "Fiscal space and low interest rates: A Eurozone perspective", VoxEU.org, 28 November.

Buti, M. and N. Carnot, (2018), "The case for a central fiscal capacity in EMU", VoxEU.org, 07 December.

Buti, M. and Krobath M., (2019), "Should the eurozone be less intergovernmental?", LUISS Policy Brief, 30 April.

Brunnermeier, M.K., H. James and J.P. Landau (2016), *The Euro and the Battle of Ideas*. Princeton University Press.

Davies, G. (2014), "Draghi steals the shows at Jackson Hole", Financial Times, 25 August. Retrieved from: https://www.ft.com/content/8e0d2126-f156-3d0a-9d97-0a47ac1124a9.

Draghi, M. (2014), "Unemployment in the Euro Area". Retrieved from: https://www.ecb.europa.eu/press/key/date/2014/html/sp140822.en.html.

Draghi, M. (2019), "Twenty Years of the ECB's Monetary Policy". Retrieved from: https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp190618~ec4cd2443b.en.html.

European Commission (2017), Reflection Paper on the Deepening of the EMU, COM (2017) 291, Brussels, of 31 May 2017.

European Stability Mechanism (2019), Annual Report 2018. Retrieved from: https://www.esm.europa.eu/sites/default/files/esm-annual-report-2018.pdf.

Furman J. and L. Summers (2019), "Who's Afraid of Budget Deficits?", 28 January. Retrieved from: http://larrysummers.com/2019/01/28/whos-afraid-of-budget-deficits.

Geithner, T. F. (2015), *Stress Test: Reflections on Financial Crises*. Broadway Books.

Keynes, J. M. (1933), "An open letter to President Roosevelt", New York Times, 16, p. 2, 31 December. Retrieved from: https://www.nytimes.com/1933/12/31/archives/from-keynes-to-roosevelt-our-recovery-plan-assayed-the-british.html?searchResultPosition=1.

Lowe, D. and M. Luckman (2019), “Global Protectionism”, Gowling WLG Report. Retrieved from: https://gowlingwlg.com/en/topics/protectionism/global-protectionism/.

Mody, A. (2018), *EuroTragedy: A Drama in Nine Acts*. Oxford University Press.

Sargent, T. J. and N. Wallace (1981), "Some unpleasant monetarist arithmetic," *Quarterly Review*, Federal Reserve Bank of Minneapolis, Fall issue (Vol. 5, No. 3).

Schmidt, V. (2015), “The Eurozone's Crisis of Democratic Legitimacy. Can the EU Rebuild Public Trust and Support for European Economic Integration?”, ECFIN Discussion Paper 15.

Summers, L. (2008), “Why America must have a fiscal stimulus” *Financial Times*, 05 January. Retrieved from: https://www.ft.com/content/3b3bd570-bc76-11dc-bcf9-0000779fd2ac.

Tooze, A. (2018), *Crashed: How a decade of financial crises changed the world*. Penguin.