European Central Bank’s Powers Grow But Can It Really Save The Eurozone?



Sweeping new banking supervisory powers, the bond market intervention under Mario Draghi, and the ECB’s influence over the fiscal and budgetary policies are raising concerns

Ian Traynor | The Guardian | The Interview People

Ten minutes walk from Frankfurt’s main railway station, through a warren of sex shops and seedy gambling dens, two dozen of the most powerful unelected people

on the continent gather once a fortnight to try to save Europe from itself.

Around a large circular table on the 36th floor of the Eurotower that soars over the city centre red-light district, Mario Draghi chairs the meetings of the governing council of the European Central Bank which have supplanted EU summits and finance ministers' sessions as the key events deciding the fate of the euro – testimony to the failures and fecklessness of the EU's elected leaders.

The Italian central banker radiates understated gravitas and charm, has been in office not even a year, and has already been dubbed the euro's saviour, the most important central banker on the planet, the most powerful person in Europe with the possible exception of chancellor Angela Merkel of Germany.

Draghi's expanding battery of weapons for combating the euro crisis is to be strengthened immenselyon Wednesday when the European Commission unveils new draft legislation putting the ECB in charge of supervising the eurozone's 6,000 banks, with the power to grant and withdraw licences.

Within a month of taking office last November, Draghi delivered a coup, launching a trillion-euro programme of cheap loans for Europe's banks. Last Thursday he went much further, announcing a new policy of limitless purchasing of eurozone government bonds known as OMT – outright monetary transactions.

The markets went quiet, Spain, Italy, and Ireland rejoiced, as Draghi emphasised for the third time in six weeks that the euro is irreversible. He framed his bold intervention as solidly within his remit to defend the embattled currency.

But German monetary purists erupted in howls of protest, although it was the German on the ECB's six-strong executive, Jörg Asmussen, who played a key role in drafting the new policy.

"Only a currency whose existence is out of the question can be stable," Asmussen

told the Guardian in an interview. “What for us is clearly within our mandate is to guarantee the stability of the euro.” Extreme times generate extreme moves. There is no doubt that the eurozone’s exhausted political leaders are quietly relieved that Draghi is taking some of the heat out of the crisis. While Merkel, the central actor in the euro drama, could never say so publicly, her aides have been known to concede that Draghi is the only person who can rescue the euro – so let him get on with it.

And since the stakes could hardly be higher, for Asmussen the end would appear to justify the means.

“I see an incomplete currency area,” he said. “We’re at a very decisive moment. We need to aim for more Europe, define our place on the globe in the 21st century. If we’re not willing or able to embark on that route, all the achievements of the monetary union, and even of the single market, could be at risk. We don’t know if we’ll succeed, but we’ll work for it.”

But the sweeping new banking supervisory powers, the bond market intervention, and the increasing influence the ECB wields over the fiscal and budgetary policies of the governments of the eurozone have many worried that the ECB president and the 22 others on the governing council – the 17 central bank chiefs of the eurozone plus the six-strong ECB executive, all men in suits, not a woman among them – are getting too big for their boots.

“The ECB is getting very powerful,” said Jean Pisani-Ferry, director of the Bruegel think tank in Brussels. “It has emerged from the crisis as a strong institution. It deserves more powers, though this is a major challenge.”

Draghi’s predecessor, Jean-Claude Trichet, played a key role behind the scenes in unseating Silvio Berlusconi as prime minister of Italy last year. Trichet’s letters to the Irish government, some of them recently published by the Irish Times, show how he pressured Dublin into its eurozone bailout, arguing that the dire condition of the Irish banks was imperilling the entire European banking system.

Through its involvement in the “troika” with the European Commission and International Monetary Fund, the ECB is dictating fiscal and economic policy to eurozone strugglers. And in Brussels, senior officials report that ECB staff are ubiquitous at crisis meetings, seeking to steer and influence policy-making by eurocrats and eurozone government officials.

“They’re all over us, wanting to discuss legislation. We try to keep them at arm’s length as it’s none of their business,” said one EU official. “Now with the banking supervision, the buck will stop in Frankfurt. It seems the ECB’s dream may be coming true.”

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Asmussen dismisses the talk of an over-mighty central bank, indirectly describing the ECB’s activism as a necessary response to the inadequacies of the eurozone’s politicians.

“Nobody should think that the people in the ECB are megalomaniacs. We think we have an important mandate, but a limited one,” he said. “Some people say that the ECB was the only institution in the crisis able to act. That’s crisis management. It cannot and it should not stay like this. We’re slowly but surely working on empowering other institutions to be able to act.”

But the conditions Draghi says are needed to trigger the bout of bond-buying are frequently explicitly political demands of elected governments.

“The governing structure of the euro area has clear design flaws,” said Asmussen. “It should be clear to everyone that we stand ready to do our part, repairing the monetary transmission mechanism. But in order to be successful others must do their part. Member states must show fiscal discipline, regain competitiveness, and where needed clean up bank balance sheets. And the community of states in Europe must improve the institutional architecture of the incomplete monetary union. Only if these three elements are together can it work.”

Improving the euro's "institutional architecture" entails the 17 countries surrendering large chunks of sovereignty over budget and fiscal policy to a eurozone "fiscal union" seen as the logical successor to the "banking union" being proposed on Wednesday.

While arguing that a common currency cannot function without common fiscal policies, the ECB is playing a much more overtly political role than it did before the crisis when, on the model of Germany's Bundesbank, it restricted itself to monetary policy-making, inflation-fighting, and jealously guarded its independence.

Analysts say that that independence will be further eroded by the new powers over eurozone banks, resulting in a conflict of interest between different functions since the ECB will be responsible for supplying liquidity to the banks it is policing and because it will need to be politically accountable in supervising the banks while politically independent in setting monetary policy.

"Accountability is a potential problem," said Daniel Gros, a German economist who heads the Centre for European Policy Studies. "You want the ECB independent of political pressure but to be accountable on banking supervision. How to square that circle?"

Asmussen is the first to agree and is calling for a "Chinese wall" to be erected at the ECB to avoid any overlap, conflict, or confusion.

"Monetary policy by definition is independent. Banking supervision by its very nature is not. It must be subject to parliamentary and judicial control. We're open to this request to show accountability to the European parliament and the council [of eurozone governments]. Accountability is needed. In the end it's about taxpayers money and this is the core competence of any parliament."

Draghi has already shown himself to be much bolder than his predecessor, facing down the might of the Bundesbank – apparently with a wink and a nod from Berlin – and taking on a much more political role, always the aim of the French for the ECB

and always resisted by the Germans.

“This is uncharted territory,” said a senior EU official. “Draghi is taking risks with his own authority. He’s getting away with it because of the leadership vacuum he’s stepping into. But this can’t last. We know that the politicians will have to come back one day.”