

# THE FOURTH VISION PONTIGNANO CONFERENCE ON THE FUTURE OF EUROPE

Siena, 8<sup>th</sup> – 10<sup>th</sup> June 2023

**PSG3. AFTER CREDIT  
SUISSE: A BETTER  
PORTFOLIO OF  
POLICIES TO MAXIMISE  
BOTH FINANCIAL  
STABILITY AND LONG-  
TERM GROWTH:  
REDESIGNING THE  
TRIANGLE BETWEEN  
SG PACT, THE ECB'S  
MANDATE AND  
COMMON FISCAL  
CAPACITY**



  
**TIME TO LAND  
IN THE 21<sup>ST</sup>  
CENTURY**

*Vision*  
CRAFTING THE FUTURE

 **EU**I EUROPEAN  
UNIVERSITY  
INSTITUTE

  
UNIVERSITÀ DI SIENA 1240

  
**TIME TO LAND  
IN THE 21<sup>ST</sup>  
CENTURY**

“History cannot be allowed to repeat itself.” These words can be read in the speech given by Barack Obama during his first presidential term on 14<sup>th</sup> Sep 2009. He was commenting on the financial regulation package that the Federal Administration was about to propose to Congress and the idea was to find a solution capable of guaranteeing enough “stability” to the financial markets, without hampering the (financial) “innovation” which was seen as “indispensable for growth” (and risk management itself).

After 15 years, history seemed to contradict Obama’s promise. The first three months of 2023 have already seen, with Silicon Valley Bank’s and the Signature Bank’s failures, two of the three largest collapses of banks in US history<sup>1</sup>. They would have, however, been dwarfed if Credit Suisse – one of the thirty world banks that Financial Stability Board considers the “globally systemic important banks” capable of rattling the entire system – had not been rescued by the acquisition by their countrymates UBS.

It is paradoxical that the new crisis hit both the bank of the Internet companies that are “crafting the future” in Silicon Valley, and one of the oldest (and some may have once said “most venerable”) financial institutions, one that was at heart of a country known to be the world’s financial “safe haven”.

The European Union seemed to have escaped the new tsunami (notwithstanding rumours on Deutsche Bank and the widespread fall of EU banks’ shares) and this is most likely due to even more stringent regulations that the European Banking Union has promoted. And yet the question is: is this enough? Are our regulations good enough to guarantee enough “stability” to both banks and hugely indebted governments and “growth” to an economy which is still suffering a long-standing deficit of innovation?

In the last twenty years, the greatest financial crisis for the European Union has, indeed, come from sovereign debt and less from banks. And yet the last months have clearly shown how **the destinies of governments and banks are deeply intertwined**. Banks have been often vital to buying government bonds so to ease tensions in their borrowing conditions; likewise, it was thanks to states taking over collapsing financial institutions’ balance sheets that the infection was stopped from further circulation<sup>2</sup>.

The feeling is that we are facing multiple crises/tensions which, when they interact, create a complexity that seems to go beyond the instruments that economists have long used. As a matter of fact, we are navigating “uncharted waters” (as Mario Draghi once said). One evidence of this is that central banks may have lost, as the graph below seems to say, part of their capability to tame inflation (which is their main mandate) by changing the quantity of money and/or the interest rates (the argument here is that globalisation and technologies may have eroded this)<sup>3</sup>.

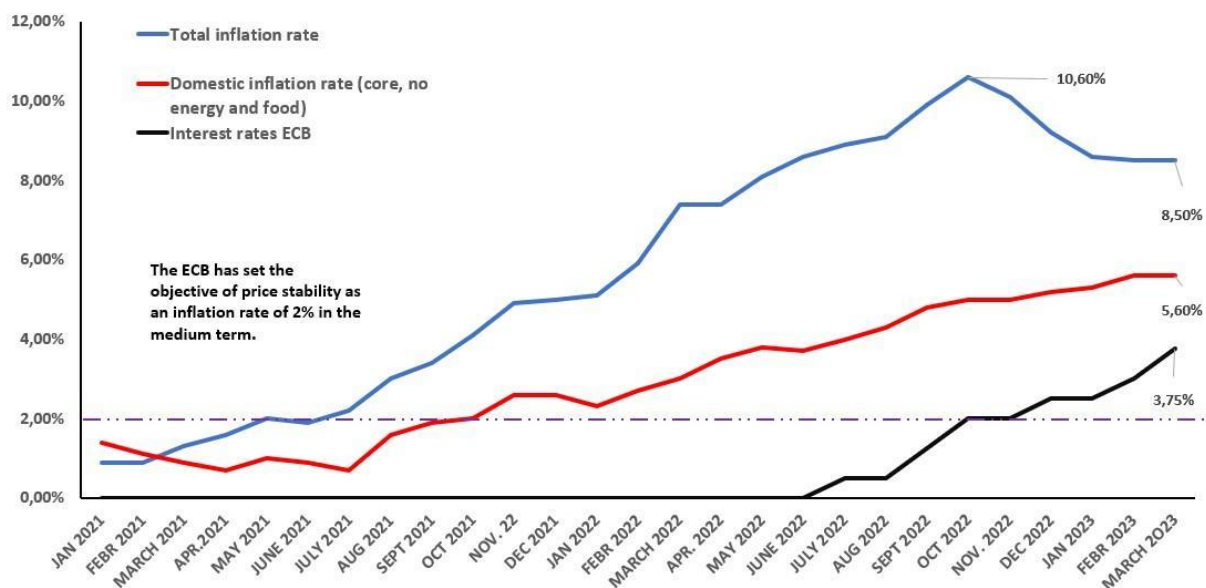
#### **GRAPH 4 – INFLATION RATE (TOTAL AND CORE) AND INTEREST RATES ON MAIN FINANCING OPERATIONS (EURO AREA, 2021 – 2023)**

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<sup>1</sup> Considering inflation-adjusted assets under management.

<sup>2</sup> More recently it was losses on treasury bonds due to rising interest rates that brought Silicon Valley Banks to its knees, and the US treasury State itself to provide a guarantee to all depositors.

<sup>3</sup> On this see also “Inflation and Central Banks: the paradox of “La Casa de Papel”, Vision, March 2023



#### SOURCE: VISION ON ECB DATA

For the EURO area and the EU it is time to redesign the triangle between the three main instruments with which economic policies are realised<sup>4</sup>: the stability and growth pact, which was suspended with COVID-19 and will be reformed before being reactivated; the European Central Bank, which has “saved” the EURO system at least twice (when Draghi’s QE in 2015 and with the pandemic emergency purchase program in 2020); and some common fiscal capacity (possibly with own resources) that the EU needs to respond to possible new emergencies or to invest into European Public Goods<sup>5</sup>.

Vision’s Conference on the Future of Europe cannot be expected to solve the entire equation and yet we would like participants to contribute their problem-solving to better understand the interactions amongst the various components of the EU’s economic governance, and to produce some partial and yet reasonable solutions that are likely to be win-win. It may be helpful to look for innovative answers to the following questions:

How should the stability and growth pact be redesigned and what are the limits and the merits of the European Commission’s recent proposal<sup>6</sup>? What else should we do with inflation and do central banks still have enough weapons to control it? Is this the right time to complete the “Banking Union” and are current safeguards capable of preventing disasters and yet encouraging innovations? Can we guarantee stability and yet minimise the moral hazard (of keeping inefficiencies alive)? Is the idea of “European Public Goods” detailed enough to draft a “common fiscal capacity”? What lessons should we anticipate from the Next Generation EU?

<sup>4</sup> Some may argue that we should also add at least the European Banking Authority and the European Stability Mechanism to the equation.

<sup>5</sup> Buti, M and M Messori (2022), “A Central Fiscal Capacity in the EU Policy Mix”, CEPR Discussion Paper.

<sup>6</sup> On this see also “Merits, limits and alternatives to the EC’s proposal”, Vision, March 2023 Link at : <https://www.thinktank.vision/en/media-en/publications/the-future-of-the-stability-and-growth-pact-2>

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