

**Reforms of economic policy governance in EMU:
Is EMU at 25 fit to address the climate challenge?
A critical political economy view**

Caroline Vincensini
ENS Paris Saclay, IDHES CNRS

Euromemorandum conference, Vienna, 12-14 September 2024

First draft, please do not quote

Abstract

At 25 and after numerous reforms in response to previous crises, how fit is economic policy governance in EMU to address the current challenges, among which responding to climate change should be both a major focus and a major factor of transformation of economic policy governance? We propose to first take stock of changes in the economic policy governance framework in EMU since its inception, to discuss to what extent recent transformations since 2020 in the wake of the covid response and the Green Deal potentially represent a paradigm shift, away from the initial austerity and sound money paradigm towards a new model tentatively more oriented towards social and climate objectives. We then discuss the issues that these changes have raised, focussing on rethinking the independence and politicisation of the ECB, and rethinking the desirable extent of financialization in EMU, and the consequences on the governance of economic policies. Finally, we discuss possible changes in response to these challenges, from more consensual changes to deeper changes questioning the existing institutional framework.

Introduction

The European Economic and Monetary Union (EMU) was created 25 years ago in a world that was very different from today. The macroeconomic and political economy issues centred around delivering low inflation for growth and employment by protecting monetary policy from intervention by governments, and constraining their domestic fiscal policies to conform to this “culture of stability”. The creation of EMU was considered as an important move forward in the process of European integration following the reunification of Germany to make the EU more competitive on world markets and to ensure monetary stability necessary for trade that the Exchange rate mechanism could no longer deliver with increasing capital mobility.

After 25 years and a succession of crises, reforms, and new challenges, the EMU has been profoundly transformed, in particular concerning the principles and organisation of the monetary policy led by the European Central Bank (ECB) and of fiscal policies led by member states and the European Commission. The context has deeply changed, with EMU's seemingly successful first decade followed by the global financial crisis of 2008 and the European sovereign debt crisis of 2010 which challenged its very foundations and the will of EMU countries to preserve it. Increasing awareness of the need to act to fight climate change, in particular in the wake of the COP21 Conference in Paris in 2015, posed a new challenge to EMU policies and led to the adoption of the Green Deal in 2019, whose implementation was complicated by the pandemic in 2020. All these steps resulted in many different reforms of the EMU macroeconomic policy governance framework. This paper takes stock of these transformations and reflects to what extent EMU is now fit for responding to its macroeconomic objectives against the backdrop of climate issues. We argue that the institutional framework of EMU economic policies has not completely taken into account the specific challenges raised by fighting climate change which is a transversal issue that calls into question many founding principles of this framework.

We will address these issues from a political economy perspective, focusing on the interdependence of economic and political processes. This raises questions on the perception of the political nature of economic policies – their depoliticisation and their repoliticisation – and the link with their legitimacy and ultimately their efficiency. How does the climate issue transform the conditions of economic policy governance, raising new issues of independence and legitimacy of the ECB and of its coordination with the other economic policies? How compatible is this framework with economic policies addressing fully climate change with extensive public investments? To what extent do the past reforms open new possibilities and what are the remaining challenges, what new policy instruments and/or coordinating principles could be considered taking into account economic and democratic constraints? How could a new light be shed on these issues by linking them with scholarship on financialisation? This paper proposes to review recent literature on these issues and discuss possible new reforms. In order to keep the volume of literature manageable, we have focussed on an ECB centred perspective, even when dealing with fiscal policy. We will first take stock of studies arguing that the EMU has recently undergone a potential paradigm shift since 2020 compared with previous periods of crisis and reforms (part 1), then outline some of the new issues that this raises (or previous issues that have become more salient) that call for further reforms (part 2). We will then discuss possible new reforms (part 3).

Part 1 Taking stock of changes in EMU economic policy governance framework

The economic policy governance framework in EMU has been deeply transformed since 1999. We quickly take stock of these changes to discuss recent transformations in the wake of the covid response and the Green Deal. We sketch the initial paradigm of the framework, in what direction it has changed following the 2008-2010 crisis, and explore to what extent post 2020 changes potentially represent a paradigm shift more oriented towards social and climate objectives.

1.1 The initial paradigm

At its creation, EMU embodied a “stability culture” that all participating countries had had to agree on, a term coined by A. Schlesinger the then head of the German Bundesbank (Dyson & Featherstone 1999). Its objectives were price stability and economic stability (art. 119 TFEU), and growth with a bias towards austerity to avoid excessive budget deficits in member states which could have destabilizing effects on EMU as a whole. The structure of the economic policy governance framework was therefore asymmetrical with a strict separation between monetary and fiscal policies. The ECB was highly independent, with a mandate narrowly focused on price stability and was only allowed to consider other policy objectives through its secondary mandate if they did not conflict with price stability (art. 127 TFEU), and was forbidden from bailing out governments (art. 123 and 125 TFEU). Governments were also deprived of any mechanism of risk sharing between themselves. Member states’ fiscal policies were constrained by the Stability and growth pact and loosely coordinated through the Broad economic policy guidelines. The general organization of this governance framework was characterized as “rules based” or “governing by numbers” (Schmidt 2019), with a strong predominance of “regulatory” over “redistributive” policies (Ladi & Tsarouhas 2020).

According to the dominant economic theory of the time, building on the time inconsistency literature (Kydland & Prescott 1977, Rogoff 1985), this ensured that monetary policy would be efficient to deliver price stability as it was protected from interference by governments and requested to follow the market neutrality principle (art. 127 TFEU). The political economy literature argued that the ECB could be considered as legitimate because it had a narrow mandate and had developed considerable expertise, compensating for its lack of “input legitimacy” by its scientization and, hopefully, its “output legitimacy” (Scharpf 1999¹, Fontan 2013, Mudge & Vauchez 2016). This framework rested on the implicit assumption that

¹ Input legitimacy rests on taking into account citizens’ demands through representative politics; output legitimacy rests on the efficiency of reaching policy objectives.

policy domains are independent so that is possible and efficient to use monetary policy to pursue price stability and fiscal policy to pursue growth and employment policies.

1.2. Shifts in the initial paradigm in the wake of the 2010 debt crisis

Faced with the 2008 global financial crisis and the 2010 debt crisis, European actors transformed EMU economic policy governance by creating many new instruments. Most of these reforms point to mainly incremental changes, maintaining unchanged the initial “stability culture” paradigm, although the literature points to several evolutions that hint at instances of “double loop learning” that begin to shift the objectives and principles of EMU.

Reforms concerning members states’ economic policies, despite a few adaptations such as adopting a more medium term and cyclical view of the SGP, tended to reinforce the stability bias of the framework, heightening multilateral surveillance of fiscal policies through the European Semester, the 6 Pack and 2 Pack legislations and the Fiscal compact, as highlighted by Gocaj & Meunier (2013), Verdun (2015), Ladi & Tsarouhas (2020). These reforms did not modify the asymmetry of the institutional framework nor its rule-based nature, leaving its fundamentals untouched (Ladi & Tsarouhas 2020, Fabbrini 2022, Steinbach 2022).

Beyond what the policy learning literature calls “single loop learning” (modifying procedures to better achieve existing policy objectives), several cases of “double loop learning” (modifying the norms and objectives of policies, Deverell 2009) were also observed concerning both member states’ governments and the ECB (Ladi & Tsarouhas 2020). Regarding fiscal policies, potentially ground-breaking reforms were implemented but at a still small scale. The bail out institutions created in 2010 and 2013 (EFSM, EFSF, ESM) went some way to filling the gap in the framework concerning financial assistance between member countries, and, albeit at a small scale (60 bn €) in the supranational EFSM, created a common debt instrument managed by the Commission, the beginning of a solidarity instrument. However, this instrument remained subject to the rules-based logic of conditionality, and most of the firepower of the bail out institutions was lodged in the intergovernmental EFSF and ESM, and failed to properly endow EMU with a full fiscal capacity. The Banking Union launched in 2014 was also an important shift in the initial paradigm, mutualizing for the first time surveillance of systemic banks and, at least in theory, their resolution in case of failure (Howarth & Quaglia 2016).

The ECB also manifested the beginnings of a shift away from the initial paradigm through its quantitative easing through asset purchasing programmes. Shifting away from a strict interpretation of its prerogatives, the ECB has been observed to start shifting from a discourse on “credibility” and anti-inflation rules to a discourse on “stability”, shift visible in

the successive speeches of Trichet then Draghi as analysed by Schmidt (2016). This also covers the fact that financial stability was entrusted to the ECB with the creation of the European Systemic Risk Board and the European Supervisory agencies. Interestingly, these shifts were difficult to accommodate for the ECB within its mandate and so it pursued a strategy of introducing these reforms “by stealth” (Schmidt 2016), “obfuscating” the changes (van’t Klooster 2023), minimizing the degree of change to avoid an excessive politicization of its action (Ladi & Tsarouhas 2020). This attempt to hide the nature of the new ECB policies did not go completely unnoticed, for example J. Stark resigned from the ECB in 2011 and several court cases were brought against the ECB, but so far the ECJ has confirmed the legality of ECB actions (Gauweiler in 2015 on the OMT, Weiss in 2018 on the PSPP, see Sarruger & Fontan 2019).

1.3. A potential paradigm shift since 2020: fiscal policies

Finally, further changes to the economic policy governance framework in EMU since 2020 seem to indicate that a paradigm change is potentially underway with the Green Deal and the Next Generation EU programme adopted in response to the pandemic which also weaves in the Green Deal objectives. In this period, there are signs that the objectives and the structure of economic policy governance are being transformed.

Its objectives have now subtly shifted from “growth” *tout court* to “sustainable growth” with NGEU (Wolf & Ladi 2020). This is an instance of double loop learning with the emergence of new norms, new objectives for economic policies. Concerning fiscal policies, first, climate issues are made transversal and incorporated into all economic policies carried out by the Commission (art. 11 TFEU) and member states. Second, new instruments have been created, the most emblematic of which is the launching of new EU debt to finance the NGEU, breaking a major taboo in EMU. EMU economic policy governance which was initially only regulatory is now complemented by a redistributive dimension as argued by Ladi & Tsarouhas (2020). Third, the type of policy surveillance and coordination is also changing with more direct constraints on the type of spending of member states (ex. 37% of NGEU funds must be spent on climate related spending), going beyond the more formal constraint on the numerical level of deficit and debt. Fourth, the Commission had already introduced a new rule for state aid in 2018 on important projects of common European interest (IPCEI), enabling a larger volume of state aid to finance these programmes, opening up more discursive policy space for topics other than just fiscal prudence.

1.4 A potential paradigm change: the ECB and monetary policy

Concerning monetary policy, the ECB has pursued its asset purchasing programmes in reaction to the pandemic, with the PEPP in March 2020. In terms of a shift in objectives, it has started to address more systematically the issue of climate change in recent years, as analysed in Thiemann & al. (2023). The ECB first took into account climate issues from the perspective of correcting market failures by improving disclosure on climate exposure and climate impact of economic activities following Mark's Carney's "tragedy of the horizons" speech in 2015 (Chiapello 2020), and second started to address the management of its own portfolio with climate criteria in mind. Third, from 2018 onwards, the ECB started to review its conception of the impact of climate change on its policy objectives and policy decisions. The ECB has increasingly recognized that climate change affects price stability, its primary objective², so that it must take it better into account in its macroeconomic analysis and assessment of financial risks. Furthermore, the ECB has also begun to question the market neutrality principle which was an impediment to pricing differently green and brown assets, recognizing that climate change fundamentally results from a market failure and that improving disclosure on climate issues will not be enough to solve the problem³. This has materialized in the ECB's monetary policy review published in 2021. The ECB has so far developed the integration of climate change in its economic modelling, amended its collateral framework to favour companies and investors that comply with the CSRD and SFDR directives and rebalanced its asset purchases towards companies with better climate performance.

The structure of economic policy governance is a little less asymmetric with greater fiscal power at the European level (European Commission), leading to some rebalancing between fiscal and monetary policies (Fabbrini 2022, Steinbach 2022). The governance framework is no longer strictly rules-based and also incorporates direct transfers. Contrarily to the previous period characterized by change "by stealth", both the ECB and the European Commission have fully acknowledged this shift in their objectives and instruments. The ECB has given up trying to depoliticize its actions and, deploying its PEPP in March 2020, has acted with "a dramatic display of agency" according to van't Klooster (2023), acting faster and on a larger scale than in 2010 to support sovereigns and firms in the pandemic. In 2010, the ECB

² Speech by C. Lagarde, 2022: "I contend that price stability can be significantly affected by climate change, and that as a result of that, if we want to deliver on our mandate, we have to be not only mindful but also take action in order to prevent climate change from affecting that price stability that is our mandate".

³ Speech by I. Schabel, 2021: "If the market misprices the risks associated with climate change, adhering to the market neutrality principle may instead support a market structure that hampers an efficient allocation of resources".

and European Commission were not ready to explicitly recognize the changes they brought to EMU governance and minimized them (Schmidt 2016); in 2020, they did this in a much more open way, which opens up a window of opportunity for deeper transformations.

As of 2020, we can argue that EMU economic policy governance has been transformed in ways that potentially represent a paradigm change towards more sustainable growth and more redistribution among EU countries. This draws on the policy learning initiated in the previous period and on the urgency of the new challenges. However, NGEU is for the moment only temporary until end 2026, and the ECB has not adopted the most disruptive variants of greening its policy framework, which is why this paradigm change remains to a large extent “potential”. We now turn to the issues that this potential paradigm change raises concerning the architecture of economic policy governance in EMU.

Part 2 Issues raised: why further reforms are necessary

We identify three issues, among others, that open the discussion on the need for further reforms in EMU economic policy governance: the increasing interaction between economic policies making it impossible to keep considering that monetary and fiscal policies can be independent; the resulting issue of the need to rethink the ECB’s independence in the face of its repoliticisation and links with other economic policies; and the often overlooked influence of financialisation in the way monetary and fiscal policies are carried out and the objectives that can be pursued.

2.1. Increased interaction between economic policies: climate is transversal

With the increasing salience of climate issues, it is more and more recognized that climate change impacts all economic dimensions, including price stability. Thiemann & al. (2023) have documented how this recognition was voiced by Benoît Coeuré (then member of the ECB supervisory board) in 2018 and disseminated by the NGFS (Network for greening the financial system, bringing together central bankers and financial regulators) in the following years, leading to a progressive shift in the position of several central bankers at the ECB, the Dutch central bank and the Banque de France in particular (Thiemann & al. 2023). Therefore, a central assumption of the central bank independence model no longer holds: it assumes that price stability is independent from other issues such as unemployment, financial stability, and climate, so that it is efficient and legitimate to make the central bank independent and entrust it with a narrow mandate focused on price stability. However, price stability also depends on climate policy because climate change impacts prices through the costs of climate change itself (costs of climate related damages, rising costs of food...), through our continued dependency

on fossil fuels whose cost is currently increasing and should continue to increase, and the cost of climate related investments and the need for rare materials – which Isabel Schnabel has respectively coined “climateflation”, “fossilflation” and “greenflation” in a March 2022 speech. Once these increasing interconnections are recognised, the rationale for the separation of policy domains that justifies central bank independence is severely weakened and calls for thinking up a new framework to address these issues in a more interconnected manner. Frank Elderson’s speech in 2023 on the need to make the culture of stability compatible with climate objectives is an indication that changes are possible in this regard.

This implies that we should explore new ways to better coordinate the ECB’s monetary policy and member states’ fiscal policies (and also domestic fiscal policies among themselves), calling into question the strict adherence to central bank independence which may hinder the effectiveness of monetary policy (Baer & al. 2021, Scialom & al. 2022) and of the policy mix as a whole. The diffusion of climate objectives in the EMU architecture implies an evolution from the strict separation of levels of authority and policy fields to a more interdependent approach (Steinbach 2022), along several dimensions. First, the ECB’s climate action will be more efficient if member states also pursue more ambitious climate policies. Today, to some extent the ECB has once more moved to the frontline to substitute for insufficient government action in this domain, as was the case in 2008 and 2010, which is probably not the most efficient policy mix. This is a general argument inside the ECB, whether from officials who are opposed to greater ECB climate action such as J. Weidmann or who support it such as I. Schnabel. It will be necessary to devise channels of coordination between these macro policies so that they can mutually support each other (Bolton & al. 2020). In particular, monetary policy is an important parameter for the efficiency and sustainability of a policy of increased public spending on new green infrastructures. Second, the ECB’s action will also be more legitimate if it is supported by more political backing because political authorities themselves have a more ambitious climate agenda, and if they give the ECB new responsibilities in this field. As summarized by Baer & al. (2021), “central banks should not dance alone”.

2.2 Repoliticization and climate action of the ECB

A second reason why further changes to economic policy governance in EMU are needed is that the ECB’s action has been increasingly redistributive since the 2008 crisis, and adopting discretionary behaviour in responses to crises, which raises issues of its politicization. First its quantitative easing programmes, then its action in financial stability oversight and macro-prudential policies, its pandemic interventions and first steps to green its interventions

have increased its distributional impact to a large extent, although this has not always been recognized by central banks nor by EU institutions (Scialom & al. 2022).

Increasing redistributive effects of ECB action raise issues of politicization and democratization. Indeed, redistribution has always been one of the major justifications of public policy intervention and poses questions on the extent and direction of the redistribution of resources, which is a political issue. Therefore, more redistributive effects of its policies imply that the ECB is being repoliticised, in the sense that its decisions necessarily embody political choices. This evolution is at odds with the efforts to depoliticise central banking which was a founding principle of the independence of central banks, their legitimacy being rather grounded on the expertise of its members and the narrowness of its mandate (see above). Scholars have noted the increasing discrepancy between the ECB's independence and its repoliticisation, pointing out the emergence of "authorisation gaps" (van't Klooster 2021, Fontan 2019) where its mandate does not provide sufficient guidance in these redistributive choices. This situation calls for new reforms "to increase the legitimacy and accountability of the EU decision-making system in financial matters" (Fabbrini 2020, 2022), which implies rethinking the ECB's independence.

Another dimension of the ECB's repoliticisation, only potential for the moment, could come from citizens' political demands. As has been observed for national governments, it is possible to conceive that citizens may in the future turn to courts to hold EU institutions accountable for not taking enough action against climate change (see Steinbach 2022). Furthermore, as the ECB has taken on a greater role in several domains in the past 15 years (financial stability, pandemic response, climate action...), the public that it is accountable to has shifted too. It not only still talks to markets as a major tool of its monetary policy, but it also now increasingly needs to be accountable to citizens for its wider action in the pandemic, against climate change (van't Klooster 2023).

2.3. Financialisation and its impact on economic policy governance

Financialisation is generally a marginal theme in the discussion of the economic policy governance framework, although there are a few notable exceptions (Fontan & al. 2019, Braun 2020, Walter & Wansleben 2020). We argue that it would be useful to include it in reflections on this topic as it has impacts on the way that both monetary and fiscal policies are carried out. Probably one of the most important economic changes since the 1980s, financialisation is a phenomenon with an extending scope. Beyond the observation of the growth in the size of the financial sector (Krippner 2007) or of the diffusion of financial logics to other economic sectors

(van der Zwaan, 2014), financialisation also refers to recent transformations of public policies which rely and/or depend on financial markets for their implementation (see the literatures on the financialisation of public policies (Chiapello 2017) and on the financialization of the state (Schwan & al. 2021)). This scholarship sheds new light on the workings of monetary and fiscal policies in relationship to financial markets and raises new questions concerning their governance and eventual reconfigurations of the relationships between public policy actors and financial markets.

Concerning the governance of fiscal policies, financialisation has already conferred an important role to financial markets in that they are supposed to discipline public spending by threatening to deprive unsustainable policies of access to financing. This unintended side-effect of government-led initiatives to develop public debt financial markets in the 1980s in all major Western economies in order to finance public debts⁴ in the context of preparation of EMU has opened new opportunities to issue public debt, but has also made them dependent on market ratings of their debt and assessment on their sustainability and virtue of their public spending trajectory. Governments now rely on financial markets to implement their fiscal policies – they “govern through financial markets (Braun 2018)” – but this also limits the policy space for public spending, at a time when more spending become necessary to accelerate the ecological transition.

Concerning the governance of monetary policy, financialisation is relevant too as the ECB has become more and more entangled with financial markets for the implementation of its policy, raising the issue of its independence not only from governments but also from financial markets (Fontan & al. 2019, Walter & Wansleben 2020, Scialom & al. 2022). Braun (2020) documents the “infrastructural entanglements” between the ECB and the repo markets, which are at the heart of the transmission mechanisms of monetary policy, underlining that this led the ECB to oppose reforms aiming to tax financial transactions or regulate financial markets more strictly. Furthermore, van’t Klooster (2023) has shown that increasing financialisation of the implementation of monetary policy (in this case, the use of market ratings of public debt for the ECB’s collateral policy) was precisely pursued by the ECB in order to depoliticise its action, i.e. not to resort to a political appreciation of the quality of public debt and its eligibility to the collateral framework, and therefore strengthen its independence. Recent research has also drawn attention to the interconnection between monetary and fiscal policies through financialisation in the sense that the management of public debt on financial markets helps the

⁴ See for example Lemoine (2017) on France, Dutta (2018) on the UK, Lagna (2016) on Italy, Livne & Yonay (2016) on Israel.

central bank implement its monetary policy and more generally govern through markets. This comes at the price of a new form of derisking of (public) financial assets and a “quiet” management of public debt, making it difficult to raise issues of democratic accountability of the process (Gabor 2021, Rommerskirschen & van der Heide 2023, Pape & Rommerskirschen 2024). Fontan (2013) also argues that this entanglement of the ECB with financial markets makes it more likely to take decisions in the interest of the “market constituency” at the expense of the “people constituency”.

This proximity between the ECB and financial markets poses challenges resulting from the shortcomings of finance. As public policies seek to regulate the financial sector and to act against climate change, their financialisation makes the task harder for several reasons. First, central banks have become an integral part of the way financial markets function, and build up fragility (Walter & Wansleben 2020). Second, since central banks are active actors on financial markets, any criticism of these markets becomes difficult to disentangle from a critique of central banks themselves (Thiemann & al. 2023). Third, considering that climate change is the largest case ever of market failure, it is very difficult to argue that it can be addressed with private market instruments or with financialised public policy instruments (Chiapello 2020). This calls into question the principle of market neutrality of ECB interventions as respecting it would only reproduce the carbonated state of the economy. A speech by Isabel Schnabel in 2020 indicates that a change in this regard is possible. But being critical of financial markets and their incapacity to price correctly climate change effects is complicated because it also means reconsidering the role of the central bank and weakens its capacity to act in a depoliticized manner through financial markets (Thiemann & al. 2023). These arguments point to the relevance of questioning the extent of financialisation for reasons linked to the effectiveness of public policies to fight climate change.

Part 3. Possible scenarios

These new issues and challenges have given rise to numerous suggestions of possible reforms, ranging from rather minor adaptations of the existing policy framework to more radical new innovations.

1. A minima changes

A first group of reforms have been proposed that are relatively easy to implement in the existing institutional framework and/or that are relatively consensual to respond to these challenges. Concerning monetary policy, the ECB has already started to “green” its policy framework and implementation with its July 2021 climate action plan, acknowledging that

climate change had deep impacts on price and financial stability (see above). Going further, Coupey-Soubeyran (2020) for example has proposed that the ECB consider a green monetary policy supporting factor in its asset purchase programmes, as also proposed by the European Parliament and Commission, and/or a brown penalising factor. So far, this has been resisted by the EBA for financial stability reasons and by governments as this hampers (brown) growth.

Concerning the institutional framework of ECB independence and governance, several propositions have outlined changes that are possible within the existing institutional setup. Scialom & al. (2022) suggest democratising the designation process of central bankers; improving ECB transparency and accountability by disclosing the minutes of its meetings and possibly strengthening the position of the Parliament's ECON Committee in its relation to the ECB. Van't Klooster (2021) argues that the ECB's input legitimacy could be greatly improved if political authorities – governments and/or the European Parliament – clarify the hierarchisation of its objectives.

Concerning fiscal policies, a relatively minor change – minor because this instrument already exists – could be to make the NGEU permanent, to commit to long term spending on green activities at the EU level. It is not unheard of for initially temporary instruments to become permanent, for example when the EFSF became the ESM in 2013. This has been proposed among others by Commissioner Gentiloni in 2021, and by Christine Lagarde in 2022.

Finally, concerning the coordination of monetary and fiscal policies, the ECB could pressure domestic and EU political authorities to follow their climate targets in order to speed up the transition, because they are necessary for price stability and because political authorities tend to balk at unpopular policies in the hope that the central bank will step in, and conversely, political authorities should do their share in climate policies although this faces considerable political hurdles (Baer & al. 2021, Steinbach 2022).

2. Deeper changes

These minor changes are maybe relatively easier to implement but they fall short of answering the issues and challenges outlined above. Deeper changes have been proposed that go further in addressing these challenges, but that also imply deeper and more politically difficult changes and therefore possible resistances.

Concerning ECB monetary policy, there is a debate on whether the ECB's mandate should be changed to include a climate objective. Those in favour of political authorities changing this mandate argue that it is necessary so that the ECB fully takes into account the effects of climate change when designing its instruments and policies (ex. Coupey-Soubeyran

2020, van't Klooster 2021, Scialom & al. 2022). This implies deciding how to hierarchise the ECB's various objectives, either through existing democratic institutions such as the European Parliament, its ECON committee, or for example through a newly created European Credit Council (Monnet 2021). Furthermore, new climate objectives of the ECB could be legitimised and implemented by being coupled with existing EU climate policies, such as the integration of the climate disclosure directives (SFDR, CSRD) in the collateral policy, for example by linking a green supporting factor for monetary policy and the green activities taxonomy (van't Klooster 2021). These propositions call into question the very independence of the ECB as they imply rethinking the governance of monetary policy decisions and potentially giving more power to other political institutions in this domain. Still completely heretical until a few years ago, this proposal seems at least audible in the debate today, as the context and challenges have changed so deeply since the creation of EMU that it is legitimate to think about designing a "new central banking regime" (Scialom & al. 2022) to address the climate challenge. Central bankers are presumable opposed to such an evolution as their independence is part of their current means of legitimation, but if they seek greater output legitimacy and as their redistributive action becomes more visible, it is possible that this may become a more acceptable solution for central bankers and for the population at large which tends to be legitimately critical of unelected experts taking redistributive decisions, and which would be a welcome change from undemocratic interventions of the ECB during the 2010 debt crisis. Governments may also prefer repoliticising the central banks and being part of the process rather than leaving the central banks manage the contradictions of their repoliticisation on their own, but only if they also accept to take more responsibility for climate action on their part.

Concerning fiscal policies, deeper proposals explore ways to accommodate more fiscal space for necessary green public investments, which are estimated to be considerable. Although proposals to modify the SGP with a "golden rule" relative to infrastructure investments was never implemented, a solution could be to amend the SGP with a "green golden rule" to remove green public investments from the assessment of the SGP criteria, or to grant deviations from the objective provided that green investments are financed, these investments being qualified by the EU taxonomy (Steinbach 2022). Furthermore, creating more fiscal room for green public spending is also related to the coordination of monetary and fiscal policies. Beyond supporting green public spending by a green supporting factor for public debt in its asset purchase programme, a more disruptive proposition is that the ECB could use money creation to finance governments' green investments, which implies changing the accepted set of instruments of the ECB and therefore the EU Treaty, but is arguably more politically acceptable than carbon

taxation (see Bolton 2020, Couppey-Soubeyran 2020). Couppey-Soubeyran argues that the prohibition of monetisation of public spending can be seen as outdated as now climate change has replaced inflation as the major economic problem to be addressed. This proposal of monetisation of green public spending met with strong resistances, related to its political dimension, and one of the proposed answers would be to create an independent “European High Council for Climate Neutrality”, including representatives of the Eurosystem, member States, the European Commission, parliaments, environmental NGOs and the climate science community, which would decide which projects can be monetised.

Finally, we argue that questioning the degree and mode of financialisation should be included in the thinking about necessary transformations of the policy mix in EMU. Financialisation has become constitutive of the capitalist system but its extent and forms can be questioned in the hope of lessening its hold on public policies through more and better regulation and structural reforms. Here, the debates on the Tobin tax, on the separation of banking activities, on the reinforcement of micro and macro prudential regulation are relevant to the policy mix inasmuch as they could help curb the degree of financialisation and give monetary and fiscal policies more room for manoeuvre. Conversely, accepting that monetary policy has become more politicised and that new modes of political governance are needed can help reduce the reliance of the ECB on financial markets, which was one of its means of depoliticization, and could open up opportunities for rethinking its monetary policy instruments and relationship with the financial sector. There is a window of opportunity here according to van’t Klooster (2023) as the ECB has shifted since 2020 in particular in its treatment of government debt, becoming “self-consciously political” and moving away from market assessments of public debt sustainability.

Concerning fiscal policy, finding ways to scale back financialisation and at least partially disentangle states and the management of sovereign debt from financial markets would open up more fiscal space to support the transition to a carbon neutral economy. Taking a very broad view of financialisation, it analysed by W. Streeck (2014) as a way to avoid difficult distributional issues and “buy some time”. Finding ways to confront these issues at the collective EU level through tax and fiscal policies could perhaps reduce states’ dependence on financialisation to finance public debt, and allow greater financing of the transition and the associated necessary redistribution.

Conclusion

The context and challenges facing EMU economic policies have deeply changed since EMU creation in 1999. We have taken stock of these changes, in particular the challenges posed by climate change, arguing that EMU policy governance is now at a crossroads. Previous changes have initiated a paradigm change and we have discussed the main issues raised by these changes, calling for further reforms. Prominently among these, we have argued in favour of including climate action in the ECB's mandate, rethinking the regime of its independence to accommodate its more redistributive and therefore politicised action, in favour of rethinking fiscal policy rules to allow more public green and just spending, including debating whether the ECB could monetise the financing of public green investments, and finally rethinking the degree of financialisation to transform interactions between public actors and private financial actors and open up more room for manoeuvre for public policies. Further research could put more emphasis on the fiscal policy dimension and explore the political conditions of possibility of the suggested reforms of EMU economic governance, at the national and EU levels, to assess how probable they are and how they could be promoted.

References

- Baer M., Campiglio E., Deyris J., 2021, "It takes two to dance: Institutional dynamics and climate-related financial policies », *Ecological Economics*, vol. 190.
- Bolton P., Despres, M., Pereira da Silva, L., Samama, F., Svartzman, R., 2020, *The green swan*, Bank for International Settlements.
- Braun B., 2020, "Central banking and the infrastructural power of finance: The case of ECB support for repo and securitization market", *Socio-Economic Review*, 18 (2), 395-418.
- Braun B., Hübner D., Gabor D., 2018, "Governing through financial markets: Towards a critical political economy of Capital Markets Union", *Competition & Change*, 22 (2), 101-116.
- Chiapello E., 2020, "Stalemate for the financialization of climate policy", *Economic sociology, The European electronic newsletter*, 22, 20-29
- Coupey-Soubeyran J., 2020, "The role of monetary policy in the ecological transition: an overview of the various greening options", Veblen institute for economic reforms.
- Deverell E., 2009, "Crises as Learning Triggers: Exploring a Conceptual Framework of Crisis-Induced Learning", *Journal of Contingencies and Crisis Management*, 17 (3), 179-188.
- Dutta S., 2018, "Sovereign Debt Management and the Globalization of Finance: Recasting the City of London's 'Big Bang'", *Competition & Change*, 22, 3-22.

- Dyson K., Featherstone K., 1999, *The Road to Maastricht: Negotiating Economic and Monetary Union*, Oxford University Press, Oxford.
- Elderson F., 2023, Speech at the Bertelsmann Stiftung, Berlin, 22 November.
- Fabbrini F., 2022, “The Legal Architecture of the Economic Responses to COVID-19: EMU beyond the Pandemic », *Journal of Common Market Studies*, 60 (1), 186-203.
- Fontan C., 2013, « Frankenstein en Europe. The impact of the European Central Bank on the management of the eurozone crisis », *Politique européenne*, 4 (42), 22-45.
- Fontan C., Carré E., L’Oeillet G., 2019, “Theoretical perspectives on the new era of central banking”, *French politics*, 16, 453-470.
- Gabor D., 2021, “The wall street consensus”, *Development and change*, 52(3), 429-459.
- Gocaj L., Meunier S., 2013, “Time Will Tell: The EFSF, the ESM, and the Euro Crisis”, *Journal of European Integration*, 35 (3), 239-253.
- Howarth D., Quaglia L., 2016, *The Political Economy of the European Banking Union*, Oxford University Press, Oxford.
- Ladi S., Tsarouhas D., 2020, “EU economic governance and Covid-19: policy learning and windows of opportunity”, *Journal of European Integration*, 42 (8), 1041-1056.
- Lagna A., 2016, “Derivatives and the financialization of the Italian state”, *New political economy*, 21 (2), 167-186.
- Lemoine, B., 2017, “The Politics of Public Debt Financialization: (Re-)Inventing The Market for French Sovereign Bonds and Shaping the Public Debt Problem (1966-2012)”, in *The Political Economy of Public Finance. Taxation, State Spending and Debt since the 1970s*, Buggeln, M., Daunton M., Nutzenadel A., eds.
- Livne R., Yonay Y., 2016, “Performing neoliberal governmentality: an ethnography of financialized sovereign debt management practices”, *Socio-Economic Review*, 14 (2), 339–362.
- Monnet E., 2021, *La banque-providence. Democratiser les banques centrales et la monnaie*, Le Seuil.
- Mudge S., Vauchez A., 2016, “Fielding supranationalism: the European Central Bank as a field effect”, *The Sociological Review Monographs*, 64 (2), 146–169.
- Pape F., Rommerskirchen C., 2024, “Co-working in the collateral factory: analyzing the infrastructural entanglements of public debt management, central banking, and primary dealer systems”, *Review of International Political Economy*, 1–25.
- Rommerskirchen C., van der Heide A., 2023 “The quiet side of debt: public debt management in advanced economies”, *Socio-Economic Review*, 21 (2), 1151–1170.

- Sarruger S., Fontan C., 2019, “The judicialisation of EMU politics: Resistances to the EU’s new economic governance mechanisms at the domestic level”, *European Journal of Political research*, 58 (4), 1066-1087.
- Scharpf F., 1999, *Governing in Europe: effective and democratic?*, Oxford University Press, Oxford.
- Schmidt V., 2016, “Reinterpreting the rules ‘by stealth’ in times of crisis: a discursive institutionalist analysis of the European Central Bank and the European Commission”, *West European Politics*, 39 (5), 1032-1052.
- Schmidt V., 2019, “Politicization in the EU: Between National Politics and EU Political Dynamics”, *Journal of European Public Policy*, 26 (7), 1018–1036.
- Schnabel I., 2020, “When Markets Fail – The Need for Collective Action in Tackling Climate Change”, Frankfurt Am Main, September 28th.
- Schnabel I., 2022, “A new age of energy inflation: climateflation, fossilflation and greenflation”, Speech, 17th March.
- Schwan M., Trampusch C., Fastenrath F., 2021, “Financialization of, not by the state. Exploring changes in management of public debt and assets across Europe”, *Review of International Political Economy*, 28 (4), 820-842.
- Scialom L., Le Quang G., Deyris J., 2022, “Shaky foundations Central bank independence in the 21st century”, *EconomiX working papers*, 16.
- Steinbach A., 2022, “The Greening of the Economic and Monetary Union”, *Common Market Law Review*, 59 (2), 329-362.
- Streeck W., 2014, *Buying time: The delayed crisis of democratic capitalism*, Verso.
- Thiemann M., Büttner T., Kessler O., 2023, “Beyond market neutrality? Central banks and the problem of climate change”, *Finance and society*, 9 (1), 14-34.
- Van der Zwaan N., 2014, “Making sense of financialization”, *Socio-Economic Review*, 12 (1), 99-129.
- van’t Klooster J., 2021, “The ECB’s conundrum and 21st century monetary policy: How European monetary policy can be green, social and democratic”, *Transformative responses to the crisis*, Heinrich Boll Foundation.
- van’t Klooster J., 2023, “The politics of the ECB’s market-based approach to government debt”, *Socio-Economic Review*, 21 (2), 1103–1123.
- Verdun A., 2015, “A Historical Institutional Explanation of the EU’s Responses to the Euro Area Financial Crisis”, *Journal of European Public Policy*, 22 (2), 219–237.

- Walter T., Wansleben L., 2020, “How central bankers learned to love financialization: The Fed, the Bank, and the enlisting of unfettered markets in the conduct of monetary policy”, *Socio-Economic Review*, 18 (3), 625–653.
- Wolff S., Ladi S., 2020, “European Union Responses to the Covid-19 Pandemic: Adaptability in Times of Permanent Emergency”, *Journal of European Integration*, 42 (8), 1025-1040.