

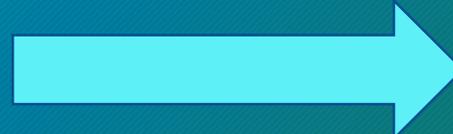


Global warming:
Does the ECB mandate legally authorise a
“green monetary policy”?



Yolaine Fischer - November 2018
The views expressed are only those of their author

Introduction



Findings:

The Eurosystem monetary policy *can*, with regard to the Eurosystem mandate, play a role against global warming.
It might even *be compelled* to do so.

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1 - An unprecedented context in the history of humanity

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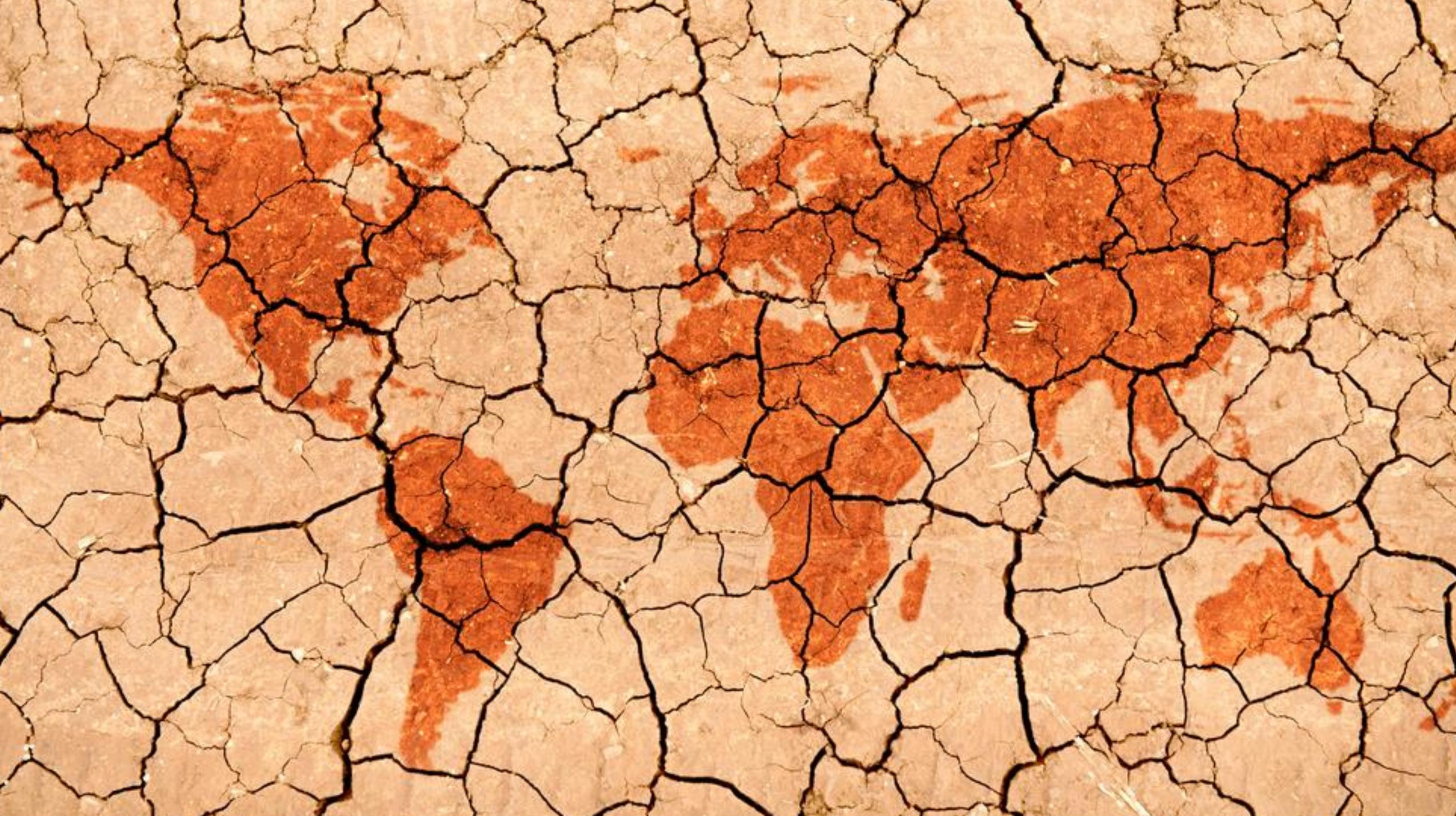
3 - Would a “green monetary policy” be compliant with EU principles applicable to the Eurosystem?

« *Our house is on fire but we are looking elsewhere* »

Jacques Chirac, 2 September 2002

1 - An unprecedented context in the history of humanity

June 2016, California.
Within 30 years, global warming has doubled forest fires in the United States.



1 - An unprecedented context in the history of humanity

New tendency of case law around the world: condemnation of public authorities because of the insufficiency of their action on climate.

Example:

- 24 June 2015: *Urgenda* decision, The Hague Tribunal:
 - ➔ Condemnation of the Dutch state (recently confirmed by the Court of Appeal).





2 - Would a “green monetary policy” be compliant with the ECB mandate?

A - Instrument

B - Objective

2 - Would a green monetary policy be compliant with the ECB mandate?

A - Criterion related to the nature of the instrument

- The instrument must be a monetary policy instrument
- Green monetary policy: feasible through the refinement of existing monetary policy instruments. Examples:
 - Green targeted refinancing operations
 - Green APP
 - Greening of eligible collateral

2 - Would a green monetary policy be compliant with the ECB mandate?

B - Criterion related to the objectives pursued

The Eurosystem mandate is composed of two objectives:

- *Primary objective: **price stability***
- *Secondary objective: **support to the general economic policies in the Union to contribute to the Union objectives***

Article 127 TFEU: « 1. The primary objective of the European System of Central Banks (...) shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union [TEU]. (...) »

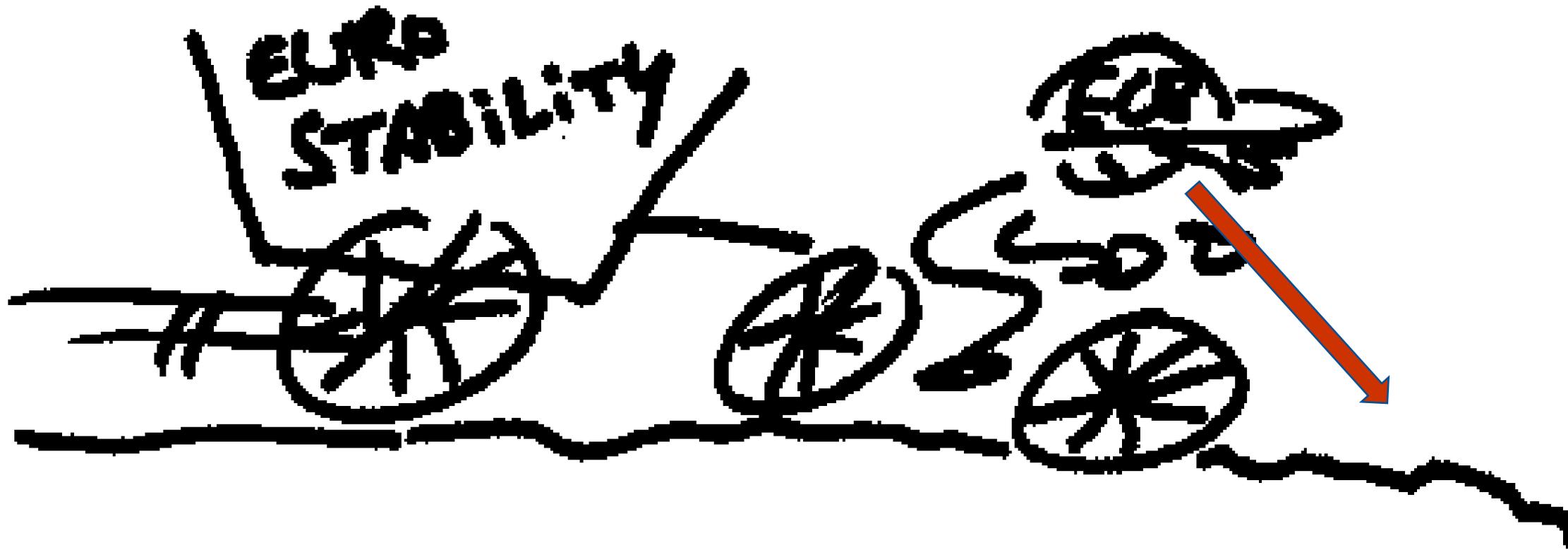
2 - Would a green monetary policy be compliant with the ECB mandate?

❖ The secondary objective

Global warming has an **increasing impact on many areas** (economy, food, access to water and to energy, health, environment, climate refugees, conflicts, etc.).

- ➔ It threatens the majority of the EU objectives provided by Article 3 TEU.
- ➔ Protection of climate is therefore a necessary prerequisite in order to achieve these objectives.
- ➔ Fulfilling the price stability objective may not be sufficient any more to fulfil “automatically” the secondary objective.

❖ The primary objective



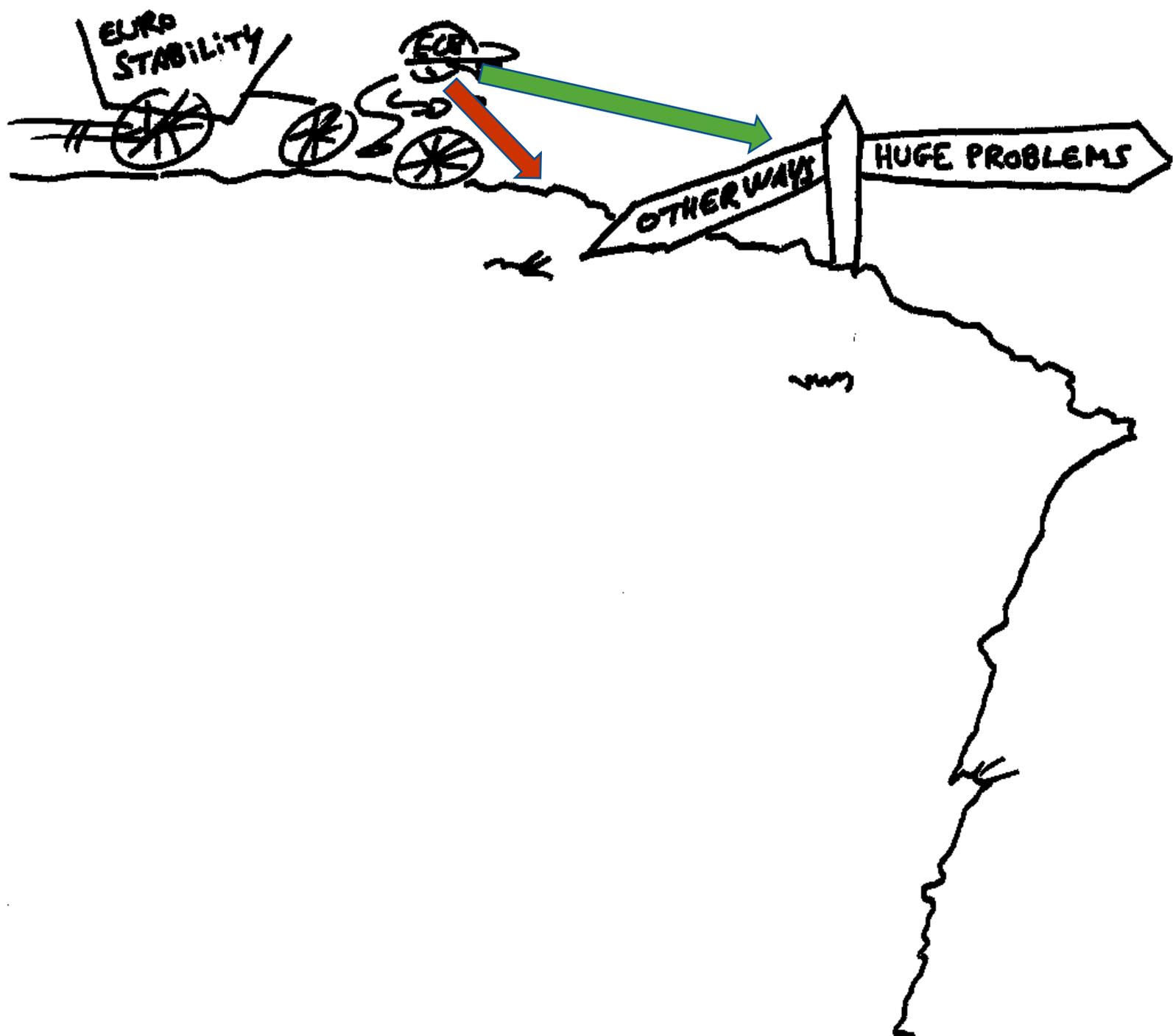
2 - Would a green monetary policy be compliant with the ECB mandate?

Is price stability also threatened ultimately?

- **Current state of economic research**
 - Rising number of analyses
 - Limits of economic modelling
 - Hyperinflation? Prolonged deflation?

The reference for a global and long term vision? The Stern review, 2006:

“Our actions now and over the coming decades could create risks of major disruption to economic and social activity, on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century. And it will be difficult or impossible to reverse these changes.”



3 - Would a “green monetary policy” be compliant with EU principles applicable to the Eurosystem?



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Main principles examined:

- ✓ Principle of conferral
- ✓ Monetary financing prohibition
- ✓ State aid
- ✓ Proportionality principle
- ✓ Open market economy with free competition favouring an efficient allocation of resources
- ✓ Equality of treatment
- ✓ Independence
- ✓ Neutrality?

CONCLUSION

Towards smart monetary policy instruments?

Because of an extraordinary context, the interpretation of its mandate made in 1998 by the Eurosystem may have to be reconsidered, regarding both:

- The stance that complying with the secondary objective is sufficient to comply with the primary objective of price stability
- The time horizon of its action

