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Introduction

Seven years of the ongoing European debt crisis have transformed the Eurozone and the European Union, including the European Central Bank (ECB) and monetary policy in Europe. In recent years, we have seen zero or negative interest rates, programs of generous long-term liquidity provision for commercial banks, and large-scale purchasing programs of government bonds and other securities by the ECB. In a crisis moment, the President of the ECB announced that the ECB will do "whatever it takes" to rescue the Eurozone. The ECB also became heavily involved in macro-prudential analyses of issues related to the stability of the financial system, banking supervision, and the possible application of a banking resolution mechanism.

Based on these developments, many observers noted a broadening in the ECB's objectives and responsibilities, and some claimed that the ECB oversteps its mandate. The ECB started off as a truly European institution with board members and decision makers who focused on a narrowly defined mandate: price stability. National controversies and interests may have played some role, but they were not prominent, or even dominant, among the decision makers inside the ECB; or at least this is how the ECB appeared in public. In the last few years since 2010, the frequent crisis-EU-Council meetings and country programs became almost unthinkable in the absence of the ECB President or ECB representatives. More generally, the role of the ECB in European economic policy became most visible when the ECB President co-authored The Five Presidents' Report: Completing Europe's Economic and Monetary Union, a kind of blueprint for a possible major political and economic transformation of the European Union.

These developments and shifts provided the background for the conference on "The Price-Stability Target in the Eurozone and The European Debt Crisis" jointly organized by ESMT Berlin and the Max-Planck-Institute for Tax Law and Public Finance, which took place at ESMT on 28 September 2016, and was co-funded by the Stiftung Geld und Währung. The conference provided a meeting place for leading researchers, policy makers, and practitioners in the fields of monetary policy, central banking, and public finance. In the morning, Athanasios Orphanides (MIT – Sloan School of Management), Gerhard Rösl (OTH Regensburg), Michael Weber (University of Chicago), Harald Hau (Swiss Finance Institute and the University of Geneva), and Stephan Kohns (Deutsche Bundesbank) offered assessments of the unconventional policy tools chosen by the ECB in recent years. Jacob de Haan (De Netherlandsche Bank and University of Groningen) provided evidence about the changing self-perception of central bankers around the world, suggesting that the trend towards a broadening of the tools and objectives of central banks is not universal, but also not uncommon. Moreover, a non-negligible share of central bankers appreciate and welcome this development.

In the afternoon, Otmar Issing, the Chief Economist of the European Central Bank from its founding until 2006, gave the keynote lecture in which he highlighted the changes described above and assessed their consequences. Otmar Issing expressed concerns that the new tools, the widely held expectations about the ECB as a crisis resolution mechanism and the adoption of this role by the ECB during the crisis describe developments that can easily overburden the ECB and raise serious legitimacy concerns. Eventually these developments can lead to what may be called a paradox of power: an ECB that assumes this huge and broad mandate may lose its independence: as the only institution with problem solving power, it cannot resist and refuse to rescue if problems emerge. If other players anticipate the ECB's course of action, it may create huge problems of moral hazard. While legally independent and seemingly endowed with even more powerful tools, the ECB may lose its material independence and its room for maneuver, ending up trapped in a regime of fiscal dominance. It becomes a predictable rescue device that is unable to commit to and follow its original mandate, and eventually fails to deliver on the key objectives for which it was originally designed.

The threat of fiscal dominance, particularly in the context of the Enhanced Asset Purchase Program ("quantitative easing") of the ECB, was also the focus of a panel discussion that took place between Stefan Homburg (University of Hannover), Lucrezia Reichlin (London Business School), and Charles Wyplosz (Graduate Institute, Geneva), moderated by Philip Plickert (Frankfurter Allgemeine Zeitung). The panelists disagreed about the primary benefits of quantitative easing and its potential negative side effects. Some panelists argued that quantitative easing is beneficial, and if it does not provide a sufficient effect, one may simply need to increase the dose. Other panelists questioned whether the fundamental mechanism between liquidity and bank loans can be stimulated by further liquidity in a world with excess liquidity, without taking bank balance sheets properly into account. There were also different assessments of the risk of entering into a regime of fiscal dominance.

A further panel, moderated by Daniel Schäfer (Handelsblatt), assessed the major practical implications of the low- or zero interest regime. Felix Hufeld (President, Federal Financial Supervisory Authority) focused on the problems of supervision of financial institutions in this context and Dieter Wemmer (CFO, Allianz SE) highlighted some of the consequences for insurance companies that carry a considerable interest change risk.

The current special issue of the ifo DICE Report includes key arguments from these discussions in short essays by the high-level participants of the conference. From our perspective, the conference and these essays make clear to us that the European debt crisis is more

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than a financial crisis. It is a deep crisis of the whole system of a common currency in Europe. It reveals that the European Currency Union was not a well-designed system – along some dimensions that were not at the forefront of criticism when the euro system was designed. The crisis management also raises serious doubts over whether the institutional changes to the system that occurred in recent years are suitable to make this system work better. In this respect, the conference highlights the importance of a research program that considers alternatives that are both economically desirable and politically viable.