

PROPOSAL

Using the ECB's quantitative easing to finance the ecological transition

FINANCE & MONEY, INVESTMENT

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Main objective

Fund the massive investments needed for the ecological transition.

Scope

European Union

Type of measure

Monetary policy

Content of the proposal

Redirect the money created by the European Central Bank through *quantitative easing* (QE) towards the ecological transition. ¹

Argumentation and justification

01

The green transition requires massive public investment

To achieve the ecological transition, massive investments are needed: in 2020, the European Commission estimated the need for additional funding at 470 billion euros per year between now and 2030. ² Note that this study does not take into account adaptation to climate change ³ meaning the actual amount of funding required is even higher.

While private investment is essential, it will not be enough. [Since the “services” provided by nature are not included in accounting](#) ⁴, some essential projects are not profitable enough, or even profitable at all, or take too long to pay off for the market. Examples include soil decontamination, preservation of ecosystems, or some mobility infrastructures (building bicycle paths is expensive, but doesn't make any “profits”).

This proposal would help finance our proposal to launch an [ecological reconstruction plan](#).

Faced with this unprecedented crisis, we must use the ECB's tools to ensure our survival.

To date, governments have not invested sufficiently throughout all sectors, partly due to European budgetary constraints. ⁴ (see also [our proposal on reforming European economic governance](#)) and the mainstream discourse on the risk of excessive public debt (see [the module on public debt](#) ☺).

Until now, the *quantitative easing* mechanism has been market-oriented: the European Central Bank buys back securities (often government debt) to “reassure” the markets and avert or moderate a financial crisis. The money thus created is supposed to revitalize the economy by encouraging banks to finance projects and businesses. However, on the one hand, this is not always the case, and on the other, under the guise of “[monetary neutrality](#)” ☺ (see the [module on money](#) ☺), the ECB could support oil projects, for example, and more generally a “4-degree” economy, since this is what *business as usual* leads to.

If QE was used to save the banks in the wake of the 2008 financial crisis, it can be used to save life on earth.

“

“Demonstrating unfailing creativity and tenacity for banks, which certainly play a key role in the economy, and then denying states the right to invest, amounts to introducing a hierarchy where financial activity takes precedence over the economic,

social and ecological future.”

FONDATION POUR LA NATURE ET L'HOMME, REPORT [FINANCING THE FUTURE
WITHOUT INCREASING DEBT](#)

In addition, by using *quantitative easing* for activities necessary for the ecological transition, the ECB would generate other positive effects for European countries, including :

- Greater autonomy of States from financial markets;
- Job creation (largely non outsourceable);
- Support for investment in research, training and professional retraining;
- Reducing inequalities, as the impacts of climate change are felt most directly by the poorest people (heating systems, rising food prices, small farmers, etc.);
- Downward pressure on interest rates, whose rise in 2022 will add to public and private debt, raising fears of a recession or even a major financial and economic crisis.

Legal and political feasibility

Legally, this proposal is immediately applicable:

Indeed, if the European Central Bank is not authorized to lend directly to EU member states, it could lend to the European Investment Bank (EIB), which could then finance projects at European, national, regional and local levels.

The ECB could also lend on very preferential terms (zero interest and very long maturities) to national bodies such as France's Caisse des Dépôts et Consignations or the Banque Postale. To date, these organizations have been refinancing themselves

with the Central Bank, but at market conditions (which poses a limit to the extent to which they can be refinanced). ⁵). To get around this limitation, adding the following sentence to paragraph 2 of Article 123 of the Treaty on the Functioning of the European Union could be considered (proposed in the book [Une monnaie écologique](#) by Nicolas Dufrière and Alain Grandjean):

“By way of derogation from the above, the European Central Bank is authorized to acquire, in significant volumes and on preferential terms, debt instruments issued by the European Investment Bank for investment in the ecological transition.”

This scenario would not require a reversal of the ban on monetary financing of States, and could be compatible with the continuity of the principle of central bank independence.

There is, however, one final obstacle to overcome. Public banks also have their own constraints – liquidity, risk levels, democratic control and profitability imperatives, etc. – which limit their ability to invest.

If this obstacle (which is not purely legal) could not be overcome, a more innovative option would have to be considered, such as the creation of an Ecological transition financing company, proposed by Gaël Giraud and Alain Grandjean in 2013. ⁶ inspired by the creation of the SFEF (Société de financement de l'économie française) in 2009 ⁷. Another possibility would be for the ECB to donate funds to the State, as proposed by Jezabel Couppey-Soubeyran and Pierre Delandre, among others. ⁸.

In addition, we propose reforming European budgetary rules ([see details of this proposal](#)). States are constrained by rules that limit their annual deficit, without taking into account the nature of the expenditure in question. It is both possible and necessary to remove the obstacles they pose to public investment in tackling the ecological crisis (since the ECB can only finance committed expenditure, and it is not the ECB that commits it!)

Politically, the context seems to be positive:

On the one hand, the European Union has launched its Green Deal ⁹ in 2019, and the “Fit for 55” legislative package is in the process of being adopted ¹⁰. The new targets for the EU cannot be achieved without additional investment.

On the other hand, in July 2022, the [ECB announced that](#) it was “taking further concrete steps, within the limits of our mandate, [...] to integrate climate change into our monetary policy operations”. In April 2023, François Villeroy de Galhau, Governor of the Banque de France, [indicated that the ECB](#) was “already in the process of implementing a greening of [its] corporate securities purchase program, as well as adapting [its] collateral arrangements”.

The ECB is thus already abandoning – at least partially – its principle of neutrality (see the [module on money](#) [⊕]) and will now “orient” its purchases of corporate bond holdings “towards issuers with a good climate record”. It will also limit the proportion of high-carbon footprint assets that banks can use as collateral to obtain loans from the ECB, thus penalizing in principle (depending on the criteria to be applied) bank support for climate-damaging industries.

These decisions considerably weaken the argument often put forward against green QE, namely that it could not be promoted because of the ECB's independence.

If the context is encouraging (without however overestimating the changes actually achieved ¹¹), a green QE requires the involvement of the major European countries.

What we are proposing is to put the central bank money at the service of a specific budgetary policy. In the current state of European governance, this requires decisions by the Eurogroup. ¹² which is, de facto, the body responsible for coordinating budgetary and monetary policy. Under the Treaties, the Central Bank is independent from Member States, but the decisions taken by the Eurogroup, in which it participates, are de facto binding on it.

Origins and works on the proposal

This proposal, in various forms, has been around for over 10 years:

- Alain Grandjean and Jean-Marc Jancovivi wrote about it in their book [C'est maintenant!](#) published in 2010
- Founded in 2010, the non-profit [Positive Money](#) advocates for monetary policy to be put at the service of people and the planet. In 2015, it led a campaign for a “QE for the people”.
- Report ” [Financing the future without increasing the debt](#) ” by the Fondation pour la Nature et l'Homme (2011).
- New Economics Foundation “[Strategic Quantitative Easing](#)” report (2013), proposed by economists Giovanni Bernardo, Josh Ryan-Collins, Richard Werner, and foundation director Tony Greenham.
- In 2014, an Energy Transition Financing Company (Société de Financement de la Transition Énergétique, SFTE) project was backed by a consortium of manufacturers, funders, local authorities and foundations.
- In 2015, Green QE was the subject of a proposal by Greens/EFA MEPs in the European Parliament (based on a [report by Victor Anderson](#)).
- Also in 2015, France Stratégie published a ” [Proposal for financing low-carbon investment in Europe](#) “.
- In 2020, this is also one of the ideas presented in [Une monnaie écologique](#) by Nicolas Dufrêne and Alain Grandjean.
- In 2020, the Veblen Institute published a note on [The role of monetary policy in the ecological transition](#).

Other resources on The Other Economy

[Money](#)  module

[Public debt and deficit](#)  module

Proposal [Launch an ecological reconstruction plan](#)

Proposal [to reform the European Stability and Growth Pact](#)

Merci de nous avoir lus jusqu'au bout !










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- 1 *Quantitative easing* (QE) refers to operations in which the Central Bank supplies central bank money to secondary banks by buying back large quantities of debt securities, mainly State debt. 
- 2 Source: ” [Identifying Europe's recovery needs](#) “, European Commission, May 2020 
- 3 Recent assessments have been made by the [think tank I4CE](#) for France. A very approximate extrapolation would place the initial adaptation measures at around 15 billion additional Euros per year for the EU. See also

<https://www.i4ce.org/au-moins-50-mds-e-an-dinvestissements-a-adapter-au-changement-climatique/> 

- 4 This is partly due to a lack of political will, since as we explain here and in the [module on public debt](#) , these obstacles can in fact be overcome. 
- 5 [Article 123-2 of the TFEU](#) lays down the principle that public banks should have access to refinancing from the Central Bank “under the same conditions” as private banks. This means market conditions. This means that the ECB cannot grant zero interest loans and/or loans over very long periods, unless the market itself is prepared to accept them. However, this remains theoretical, and the CJEU would of course protect the ECB if it decided to go down this road, as it did with QE. Furthermore, private banks have access to Central Bank “refinancing” for their liquidity needs, and must provide “eligible” assets in return (as collateral). These two constraints limit public banks’ access to central bank intervention. 
- 6 Alain Grandjean, [“Financer la transition écologique: comment faire concrètement?”](#), *Les Chroniques de l’Anthropocène*, July 21, 2013. 
- 7 Alain Grandjean, [“Où vont-ils chercher ces milliards qu’ils n’ont pas ?”](#), *Les Chroniques de l’Anthropocène*, September 9, 2013. 
- 8 Jézabel Couppey-Soubeyran, Pierre Delandre [“La monnaie volontaire”](#), *La vie des idées*, October 19, 2021 
- 9 [European Green Deal explainer](#), European Council 
- 10 [Fit for 55 explainer](#), European Council 
- 11 See, for example, [Institut Rousseau’s analysis](#) of the ECB’s announcements. 
- 12 The [Eurogroup](#) is an informal body in which the ministers of the Eurozone member states discuss issues relating to their shared responsibilities regarding the Euro. Its main task is to ensure close coordination of economic policies between Eurozone member states. 