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After the ECB: Next, please

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For a while now, central banks have been the only economic policy game in town. For the latest example, compare the attention aroused by the ECB's package of last Thursday with that generated by the G-7 statement of the same day. The measures announced by Mario Draghi caused rivers of ink to flow, with analysts engaging in detailed exegesis of his words. The package also moved markets, pushing global equities to record levels. The G-7 statement, for its part, went virtually unnoticed.

Yet the real levers of economic recovery are not in the hands of the central bank. As in the summer of 2012, Mario Draghi was adept at keeping expectations alive ("we aren't finished here"), but the truth is that the only remaining bullet, that of quantitative easing (QE), will long remain in the ECB's barrel, jammed by political vetoes and technical difficulties. Dislodging it will require clear evidence that the latest package has not achieved the desired effects – a judgment that it will be possible only over the next 3-4 quarters. A key measure of the package - the attempt to revive lending to small and medium-sized enterprises (via the TLTRO) - will in fact get under way only three months from now, and be staggered through mid-2016. Another potentially important move, the purchase of asset-backed securities, also remains a distant prospect. Their issuance will first have to ensure an adequate level of simplicity and transparency, and reach a workable volume – a process that is unlikely to be brief.

So the time of expecting miracles out of Frankfurt is over. The ECB has done much, although often belatedly, hampered by legal and political constraints. But most of its expected moves are now in force or under way. The fact that the central bank's arsenal is virtually depleted is indeed a positive, removing any excuse for the other main players – the European institutions and national governments. It is on their shoulders that the call for action in support of growth and employment, so potently expressed by the European elections, now falls. And, in contrast to that of monetary policy, their arsenal is still largely intact.

The first line of fire is, of course, that of structural reforms. Here Italy is finally trying to recover much lost terrain. But for Europe as a whole, its major countries, France and Germany, also need to step up to the plate. In rankings of reform efforts, however, both bring up the rear (for once, them, rather than Italy). The OECD calculates a "reform responsiveness indicator" that measures the implementation of its recommendations: Germany ranks third-last in the 2010-13 period, and France not much better. **Similar results emerge from indicators of "reform drive" developed by the Lisbon Council and Berenberg (see their Euro Plus Monitor).**

As is known, market mechanisms tend to put pressure only on deficit countries. Precisely for this reason, and to restore at least a modicum of symmetry of adjustment, EU surveillance mechanisms should play a compensatory role, placing due pressure on surplus countries as well. This is the role of the "visible hand" of economic policy, and the way it could help counter the deflationary bias inherent in the current set-up, thus aiding the ECB. This is not the case in practice, given also the built-in asymmetry of the EU's surveillance mechanisms, whereby the "excessive imbalances" threshold for the current account is set at 4% of GDP in the case of a deficit, but rises to 6% of GDP in the event of a surplus. A threshold, in any event, exceeded by Germany.

Yet something can be done even in this framework. The European Commission's country-specific recommendations issued in early June (the ones that caused such a stir in Italy) included detailed ones addressed to Germany as well. These recommendations are to be formally approved by the next European Council, on June 26-27, the last summit before the start of the Italian Presidency. Well, instead of a general, blanket ratification as hitherto, each European leader should be asked to explicitly undersign the document relating to his or her own country, so as to ensure greater transparency and accountability, both at the personal and national level.

The same European Council will also be called upon to examine a report by the President of the Council Herman Van Rompuy, requested at the EU leaders' dinner of 27 May, setting out the EU's "strategic agenda" for the coming years. In developing this agenda, Van Rompuy will receive contributions from the Member States. These should be made public. Most importantly, the report should provide content, beyond mere rhetoric, to the phrase "growth-friendly adjustment." It's on their positions on such concrete issues that the candidates for Europe's top jobs should be judged. We fear, however, that the Council will instead engage in an extended discussion over names, carefully weighted according to nationality and party affiliation. We have here yet another process that ought to be scrapped (to borrow Italy's Prime Minister's terminology of rottamazione) – this one at the European level.