

Monetary Policy and Sustainability – Drawing the Landscape, Prioritizing Questions, Screening Answers

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Content

→ **Drawing the Landscape**

Historical Landscape

Institutional Landscape

Academic Landscape

Prioritizing Questions

Screening Answers

Historical Landscape (I)

	Monetary Theory	International Monetary System	Monetary Policy and Financial Regulation	Economic Development
1910s	<ul style="list-style-type: none"> Neoclassical Economics, Quantity Theory of Money ($M \cdot V = P \cdot Y$) 	<ul style="list-style-type: none"> Gold Standard 	<ul style="list-style-type: none"> Establishment of the Fed (1913) Several countries (e.g. Germany) suspend the gold standard during World War I Germany (1924); France (1924) and Britain (1925) reintroduce the gold standard Fed tightens policy to stem Wall Street boom (1928) 	<ul style="list-style-type: none"> World War I (1914-1918) Hyperinflation in Germany (1922-23)
1920s				
1930s	<ul style="list-style-type: none"> Keynes publishes «The General Theory of Employment, Interest and Money» (1936). Start of the «Keynesian Revolution». 	<ul style="list-style-type: none"> Tripartite Monetary Agreement (1936) ends a series of competitive devaluations («currency war») 	<ul style="list-style-type: none"> Establishment of the BIS (1930) Britain (1931) and the US (1933) suspend the gold standard 1933 Banking Act creates the US Federal Deposit Insurance Corporation Establishment of the Reserve Bank of India (1935) 	<ul style="list-style-type: none"> Start of the Great Depression (1929) A wave of bank runs hits the US (1930-33)

Economists at the University of Chicago put forward the «Chicago Plan» (1933)

Historical Landscape (II)

	Monetary Theory	International Monetary System	Monetary Policy and Financial Regulation	Economic Development
1940s	<ul style="list-style-type: none"> Keynesian Economics 	<ul style="list-style-type: none"> Bretton Woods Agreement. US\$ tied to gold @ 35 US\$ per ounce, other currencies are pegged within 1% bands to US\$. The US\$ - instead of the Bancor as suggested by Keynes – becomes the reserve currency (1944) 	<ul style="list-style-type: none"> The Fed commits to an interest-rate peg of 3/8 percent on short-term Treasury bills (1942) 	<ul style="list-style-type: none"> World War II (1939-1945)
1950s	<ul style="list-style-type: none"> Phillips publishes «The Relation between Unemployment and the Rate of Change of Money Wage Rates in the UK, 1861-1957» (1958) 		<ul style="list-style-type: none"> «1951 Accord» restores independence of the Fed 	
1960s	<ul style="list-style-type: none"> Friedman and Schwartz publish «A Monetary History of the United States» (1963) Phelps formulates the expectations-augmented Phillips curve (1967) 	<ul style="list-style-type: none"> Creation of Special Drawing Rights (1969) 	<ul style="list-style-type: none"> India nationalises all major banks that were not yet government owned (1969) 	

Historical Landscape (III)

	Monetary Theory	International Monetary System	Monetary Policy and Financial Regulation	Economic Development
1970s	<ul style="list-style-type: none"> • Monetarism • Phillips curve • Minsky publishes «The Modeling of Financial Instability» (1974) • Lucas Critique (1976) • Prescott and Kydland publish their paper on «Rules Rather than Discretion» (1977) 	<ul style="list-style-type: none"> • Nixon Shock (end of dollar convertibility to gold). Collapse of the Bretton Wood System (1971) • Smithsonian Agreement (1971) • European Community and Japan let their currencies float against US\$ (1973) 	<ul style="list-style-type: none"> • Deutsche Bundesbank pioneers the use of pre-announced annual growth targets for the money stock (1974) • Volcker becomes Fed Chairman (1979) • US inflation peaks at 13.1% in 1981 and drops to 3.2% by 1983. The federal funds rate peaks at 20% in 1981. • China decides to have the PBC function as a central bank (1983) • Black Monday (1987) is followed by the «Greenspan put» 	<ul style="list-style-type: none"> • Several countries hit by stagflation (1970s) • First oil shock (1973) • Second oil shock (1979)
1980s				

Historical Landscape (IV)

	Monetary Theory	International Monetary System	Monetary Policy and Financial Regulation	Economic Development
1990s		<ul style="list-style-type: none"> Introduction of the Euro as an accounting currency (1999) 	<ul style="list-style-type: none"> New Zealand introduces inflation targeting (1990) followed by Chile (1991), Canada (1991), and Israel (1993) 	<ul style="list-style-type: none"> Asian Crisis (1997) Japan enters deflation (1998)
2000s	<p>Friedman says in an FT interview that: «The use of quantity of money as a target has not been a success. I'm not sure that I would as of today push it as hard as I once did.» (2003)</p> <p>PERI co-organizes a conference on «Alternatives to Inflation Targeting» (2006)</p>	<ul style="list-style-type: none"> The six central banks of the US, the Eurozone, Britain, Canada, Switzerland and Sweden – coordinate a joint cut in interest rates (2008) 	<p>Bernanke: “I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again.” (2002)</p> <ul style="list-style-type: none"> Bank of Japan increases interest rates (2000) The Fed begins a series of large-scale asset purchases (2008) 	<ul style="list-style-type: none"> Financial Crisis and Great Recession (2007-)

Historical Landscape (V)

	Monetary Theory	International Monetary System	Monetary Policy and Financial Regulation	Economic Development
2010s	<p>Josh Ryan-Collins et al. publish "Where Does Money Come From" (2011)</p> <p>IMF says that "there is, however, no presumption that full liberalization is an appropriate goal for all countries at all times."</p>	<p>Dilma Rousseff calls the increase in capital inflows a «monetary tsunami» (2012)</p> <ul style="list-style-type: none"> The US\$ makes up 61% and the Euro accounts for 24% of official foreign exchange reserves (2013) <p>Raghuram Rajan calls for more monetary policy coordination (2014)</p>	<ul style="list-style-type: none"> Switzerland introduces a 1.20 floor between the CHF and the Euro. (2011) Chairman Bernanke sets Fed inflation target at 2% (2012) Fed balance sheet hits 4 trillion US\$ (2013) - up from 900 bn US\$ in 2006 	<ul style="list-style-type: none"> Eurozone youth unemployment moves close to 25% (2013)
2020s				

Institutional Landscape

Central Banks

(e.g. Fed, ECB, PBC, BoJ, BoE)

Multilateral Organizations

(e.g. BIS, IMF, World Bank, OECD, ADB, AfDB, UNCTAD)

Legislative

(e.g. US Senate Committee on Banking, Housing and Urban Affairs, EU Parliament ECON Committee)

Regulators

(e.g. European Banking Authority, SEC)

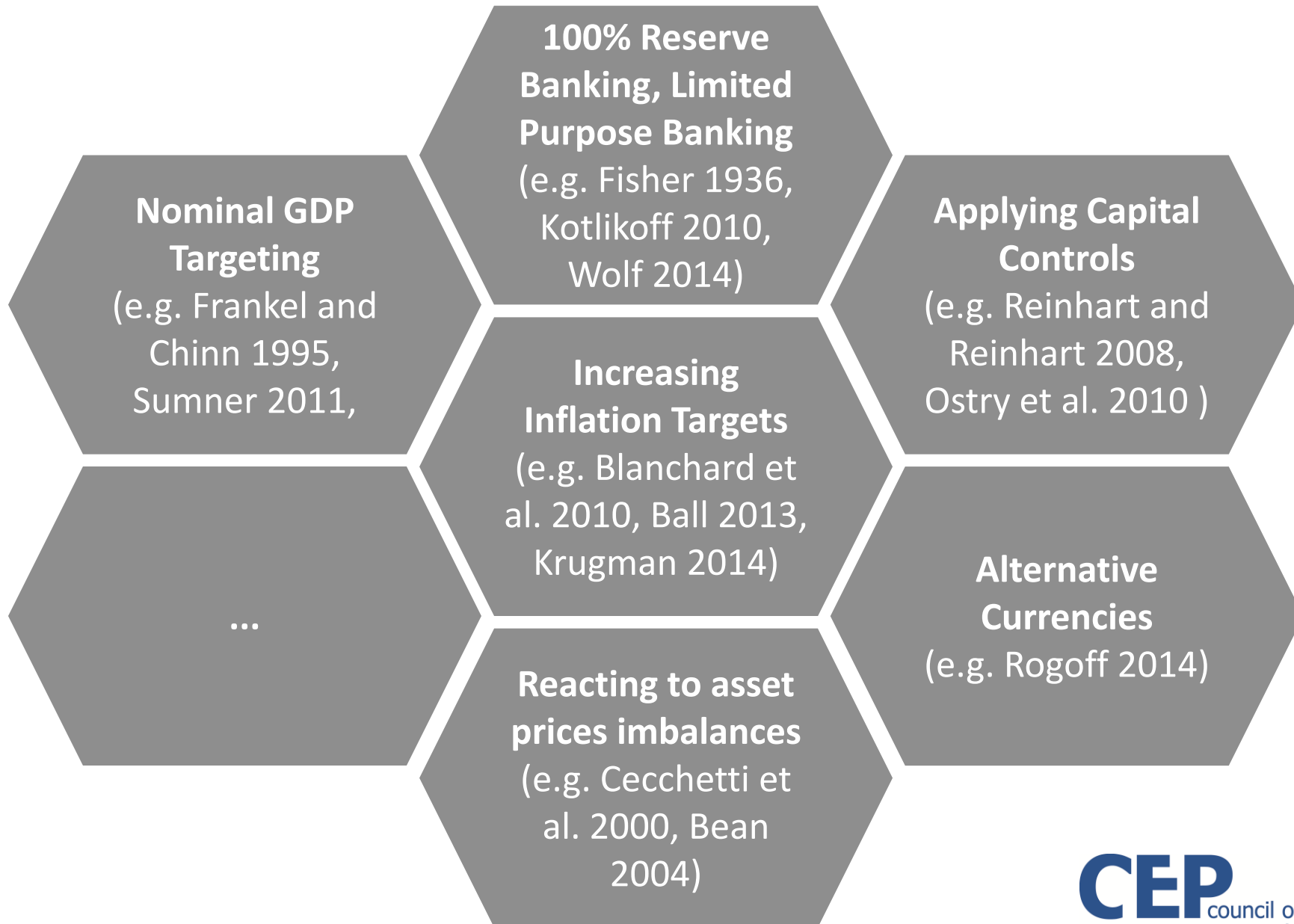
Universities and Academic Networks

(e.g. CEPR, SUERF)

NGOs and Think Tanks

(e.g. Institute of International Finance, INET, Peterson Institute)

Academic and Policy Landscape



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→ **Prioritizing Questions**

Screening Answers

Prioritizing Questions – Monetary System

Further aspects: shadow banking, international monetary cooperation, virtual money ...

			Monetary System					
			Fractional Reserve Banking	Exchange Rate Regime	Capital Markets Development	Sovereign Money	Complementary Currencies	...
Sustainability	Individual Opportunities	Job creation	<p>How is money created in an interest-based fractional reserve banking system and how does this effect sustainability?</p>					
		Sustainable Consumption						
	Social Cohesion	Inequality Moderation						
		Poverty Reduction						
	Environmental Stability	Resource Security						
		Emission Reduction						

Prioritizing Questions – Monetary Policy Objectives

			Monetary Policy Objectives					
			Price Stability	Output	Employment	Financial Stability	Exchange Rate	...
Sustainability	Individual Opportunities	Job Creation						
		Sustainable Consumption						
	Social Cohesion	Inequality Moderation						
		Poverty Reduction						
	Environmental Stability	Resource Security						
		Emission Reduction						

Further aspects: external stability. ...

What is the impact of different monetary policy objectives on job creation?

Prioritizing Questions – Monetary Policy Instruments

			Monetary Policy Instruments					
			Policy rates	Asset purchases	Swap Lines	Forward Guidance	Credit Guidance	...
Sustainability	Individual Opportunities	Job Creation						
		Sustainable Consumption						
	Social Cohesion	Inequality Moderation						
		Poverty Reduction						
	Environmental Stability	Resource Security						
		Emission Reduction						

What are the short and long-term effects of low policy rates on food security ?

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Prioritizing Questions

→ Screening Answers

Screening answers: What is happening? (example)

What is the impact of inflation on income inequality?

- Mainstream answer
 - Inflation increases income inequality
- Empirical findings
 - Inflation increases income inequality (Easterly and Fischer, 2000; Maestri and Roventini, 2012)
 - Inflation decreases income inequality (Heer and Süßmuth, 2003; Jovanovic 2014)
 - Inflation increases or decreases income inequality depending on the level of inflation (Galli and van der Hoeven, 2001; Monnin, 2014)

Screening answers: What is likely to happen? (example)

What are the likely impacts of different scenarios for future inflation on inequality?

- Main scenario
 - Inflation will stay at low and stable levels, growth picks up (ECB)
- Alternative scenarios
 - Deflation as growth does not pick up (IMF)
 - High inflation due to massive past liquidity injections

Screening answers: What should happen? (example)

What are the advantages and disadvantages of alternative monetary systems with regard to inequality?

- Sovereign money (Hubert 2012)
- Chicago plan revisited (Kumhof, 2012)
- Limited Purpose Banking (Kotlikoff, 2011; Cochrane, 2014)
- Free banking (Hayek, 1977)
- Alternative currencies (Lietaer, 2012)