Monetary policy and conflicting social objectives

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Ethical dimensions of monetary policy

1) Standard goals of monetary policy

- low inflation
- employment
- financial stability

What role for the following in monetary policy?

- impact on inequality
- questions of self-determination
- [cross-border externalities; see Reddy, 2003]

What to do in cases of tension between categories?

Monetary policy and inequality – the **factual** question

Several transmission channels (cf. Coibion *et al.* 2012):

- Impact via inflation (eg Monnin, 2014)
- Impact via employment
- Impact via role as lender of last resort

Distinction according to policy tools:

- Conventional vs. unconventional monetary policy
- Example: LTROs of the ECB

Question: how to arbitrate trade-offs between standard goals of monetary policy and inequality?

Monetary policy and inequality – the **normative** question

Five types of arguments about inequality:

1) Rights-based theories
- eg transgression of political rights (=> cap on inequality)

2) Needs-based theories
- focus on poverty (sufficientarian accounts)

3) Incentive-based theories
- inequality acceptable if it is beneficial (eg Rawls)

4) Merit-based theories
- eg incomes out of sync with economic contribution

5) Axiomatic models of equality
- still widespread but not sensitive to choice

Monetary policy and inequality – the institutional question

Two basic options:

1) integrated approach: standard goals of monetary policy should be part of one and the same objective function

2) division of labour approach: the central bank should pursue its traditional mandate while distributive concerns should be taken care of by the central government

- in theory, the former is clearly superior
- in practice, it is an open question

Optimal monetary policy – but optimal for whom?

Two constituencies of monetary policy (see Streeck, 2013):

- The political constituency: serving the interests of citizens
- The market constituency: policy setting is sensitive to the reaction of financial markets => the market acts as a filter

Why is this problematic?

What should we do about it?

Conclusions

1) If it can be shown that monetary policy exacerbates inequalities in problematic ways, what should we do about it?
   - compensate through fiscal / social policy?
   - change the mandate of central banks?
   - revisit the “independence” of central banks?
   ...

2) If it can be shown that monetary policy responds to pressures from financial markets in ways that undermine the interests of (some) citizens in problematic ways, what should we do about it?
   - change the mandate of central banks?
   - reintroduce capital controls (or an FTT)?
   - coordinate monetary policy between states?
   - ...