

## UCA-CERDI International Workshop on the Policy Mix

### “It Takes Two to Tango. The Policy Mix a Decade After the Crisis”

*Clermont-Ferrand, January 30-31, 2020*

#### Motivation

Between the late 1970s and the Global Financial Crisis of 2008-2009, a broad consensus emerged on the desirability of a strict separation between monetary and fiscal powers. Central banks had to pursue price stability independently of any political interference, whereas elected officials continued to steer fiscal policy taking monetary policy as given. For central bankers, independence from politics goes with accountability to deliver on their mandate, effectively constraining monetary discretion. To ensure a balanced policy mix, it was quickly understood that constraints on fiscal discretion were also needed. This was achieved by subjecting elected officials to formal frameworks aimed at avoiding excessive deficits and unsustainable debts. Separation of powers and the associated constraints on policy discretion set a coherent assignment of macro policy instruments whereby monetary policy focused on price stability (in the form of stable inflation expectations) by closing the output gap, whereas fiscal policy essentially had to “stay out of the way” and pursue its traditional efficiency and distributive objectives while keeping stable public debt dynamics.

The Crisis shattered the consensus view about the policy mix. Monetary policy found itself challenged in its ability to close the output gap (lower bound on nominal interest rate, uncertain effects of unconventional measures), and budgets had to be used as a stabilization tools despite severe strains caused by the financial sector and a collapse in tax revenues. Ten years after the Crisis, many countries continue to experience interest rates at historic lows (if not their effective lower bounds) and public debts at or close to historic highs. Influential economists have called for fiscal policy to play a central role in reflation the economy, with the support of central banks.

This leaves the policy mix in a twilight zone where the conventional policy assignment looks ineffective and its underlying governance is explicitly put into question. Fiscal policy rules are less popular than ever before despite attempts to make them more contingent on economic circumstances; and openly questioning central bank independence is not the taboo it used to be.

The aim of the workshop is to gather recent theoretical and empirical contributions addressing some of the main current issues about the monetary-fiscal policy mix. These issues include, but are not limited to:



<b>"It Takes Two to Tango. The Policy Mix a Decade After the Crisis"</b> <i>January 30-31, 2020, Université de Clermont-Auvergne (UCA)-CERDI, Clermont-Ferrand, France</i>	
<b>Thursday, January 30</b>	
8 :00 – 8 :30	<b>Registration / Continental breakfast</b>
8 :30-8 :45	<b>Welcome and introductory remarks</b>  <b>ALEXANDRU MINEA (UCA-CERDI)</b>
8 :45 – 10 :30	<b>Debt Sustainability in an Era of Low Interest Rates</b> (Chair: ALEXANDRU MINEA)  <b>HUIXIN BI</b> (Federal Reserve Bank of Kansas City), Wenyi Shen, and Shu-Chun S. Yang: "Fiscal Implications of Interest Rate Normalization" <b>Discussant</b> XAVIER DEBRUN (National Bank of Belgium)  <b>NICCOLÒ BATTISTINI</b> (European Central Bank), Giovanni Callegari, and Luca Zavalloni: "Dynamic Fiscal Limits and Monetary-Fiscal Policy Interactions" <b>Discussant</b> : GILLES DUFRENOT (Université d'Aix-Marseille, School of Economics)  Gilles Dufrénot and <b>CAROLINA ULLOA SUAREZ</b> (Université d'Aix-Marseille, School of Economics), "Public Finance Sustainability in Europe: a Behavioral Model" <b>Discussant</b> : MAHAMADY OUEDRAOGO (UCA-CERDI)
10 :30 – 11 :00	<b>Coffee break</b>
11 :00 – 12 :00	<b>Keynote Lecture:</b>  <b>Eric LEEPER (University of Virginia)</b>
12 :00 – 13 :00	<b>Lunch</b>
13 :00 – 15 :20	<b>Stabilization and the Policy Mix</b> (Chair: JEAN-LOUIS COMBES, UCA-CERDI)  Paul De Grauwe and <b>YUEMEI JI</b> (University College, London): "Rethinking Fiscal Policy Choices in the Euro Area" <b>Discussant</b> : AMELIE BARBIER-GAUCHARD (Université de Strasbourg, Bureau d'Economie Théorique et Appliquée)  <b>JEAN-BERNARD CHATELAIN</b> (Université Paris I Panthéon Sorbonne-PSE) and Kirsten Ralf: "Ramsey Optimal Policy versus Multiple Equilibria with Fiscal and Monetary Interactions" <b>Discussant</b> : MAXIME MENUET (UCA-IRD-CERDI)  <b>JEAN-MARC ATSEBI</b> (UCA-CERDI), Jean-Louis Combes ; Xavier Debrun and Alexandru Minea : "Fiscal Stabilization: With or Without Space? " <b>Discussant</b> : EKRAM BOUBTANE (UCA-CERDI)  Ruoyun Mao and <b>SHU CHUN S. YANG</b> (International Monetary Fund): "Policy Uncertainty and Government Spending Effects." <b>Discussant</b> : JEAN-BERNARD CHATELAIN
15 :20 – 16 :00	<b>Coffee break</b>

16 :00 – 18 :20	<p><b>Institutions and Rules</b> (Chair: XAVIER DEBRUN)</p> <p><b>CHRISTIAN KASTROP</b> (Bertelsmann Stiftung): “Fiscal Rules When Monetary Policy is Constrained”  <b>Discussant:</b> KEA BARET (Bureau d'Economie Théorique et Appliquée, Strasbourg)</p> <p>Mitu Gulati, <b>UGO PANIZZA</b> (Graduate Institute, Geneva), Mark Weidemaier, and Grace Willingham: “When Governments Promise to Prioritize Public Debt: Do Markets Care?”  <b>Discussant:</b> AXELLE KERE (UCA-CERDI)</p> <p>Maxime Menuet, <b>ALEXANDRU MINEA</b> and Patrick Villieu (Université d’Orleans-LEO), “The Perils of Fiscal Rules”  <b>Discussant:</b> SHU-CHUN S. YANG (International Monetary Fund)</p> <p>Jean-Louis Combes, <b>ALEXANDRU MINEA</b>, Nestor Sawadogo (UCA-CERDI) and Cezara Vinturis (UCA-CERDI), “Can Fiscal Rules Curb Inequality: Evidence from Developing Countries?”  <b>Discussant:</b> UGO PANIZZA</p>
<b>Friday, January 31</b>	
8 :30 – 9 :00	<b>Continental breakfast</b>
9 :00 – 10 :45	<p><b>International Aspects</b> (Chair: ROEL BEETSMA)</p> <p><b>LUISA LAMBERTINI</b> (EPFL, Lausanne) and Christian Proebsting: “Does Austerity Go along with Internal Devaluation?”  <b>Discussants:</b> NESTOR SAWADOGO and Cezara Vinturis</p> <p>Antonio Afonso, <b>JOAO JALLES</b> (Portuguese Public Finance Council), and Mina Kazemi: “The Effects of Macroeconomic, Fiscal and Monetary Policy Announcements on Sovereign Bond Spreads: An Event Study from the EMU.”  <b>Discussant:</b> JEAN-MARC ATSEBI (UCA-CERDI)</p> <p><b>HUBERT KEMPF</b> (Ecole Normale Supérieure Paris-Saclay), “Policy Mix in a Monetary Union: Design Issues”  <b>Discussant :</b> ARNAUD DIEMER (UCA-CERDI)</p>
10 :30 – 11 :30	<p><b>Policy panel—Monetary-Fiscal Coordination: Not at All, Prudent or Unprecedented?</b>  <b>Moderator:</b> XAVIER DEBRUN</p> <p><b>Panelists:</b> ROEL BEETSMA (University of Amsterdam), CHRISTOPHE KAMPS (European Central Bank), LUISA LAMBERTINI, ERIC LEEPER, DOROTHÉE ROUZET (OECD)</p>
11:30 – 12:15	<p><b>Concluding Address</b></p> <p>“Sustaining Policy Coordination: What Can Macroeconomists (Still) Learn from Game Theory?” <b>GRÉGOIRE ROTA GRAZIOSI</b> (UCA-CERDI)</p>