

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 was tasked to achieve 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 reflating 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.



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January 30-31, 2020, UCA-CERDI, Clermont-Ferrand, France

Thursday, January 30

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| 8:15 – 8:45 | Registration |
| 8:50-9:00 | Welcome and introductory remarks ALEXANDRU MINEA (UCA-CERDI) |
| 9:00 – 10:45 | Debt Sustainability in an Era of Low Interest Rates (Chair 1) HUIXIN BI (Federal Reserve Bank of Kansas City), Wenyi Shen, and Shu-Chun S. Yang: “Fiscal Implications of Interest Rate Normalization” NICCOLÒ BATTISTINI (European Central Bank), Giovanni Callegari, and Luca Zavalloni: “Dynamic Fiscal Limits and Monetary-Fiscal Policy Interactions” GILLES DUFRÉNOT and Carolina Ulloa Suarez (Aix-Marseille School of Economics), “Public finance sustainability in Europe: a behavioral model” |
| 10:45 – 11:15 | Coffee break |
| 11:15 – 12:15 | Keynote Lecture: Eric LEEPER (University of Virginia) |
| 12:30 – 13:30 | Lunch |
| 13:45 – 15:30 | Stabilization and the Policy Mix (Chair 2) Paul De Grauwe and YUMEI JI (University College, London): “Rethinking Fiscal Policy Choices in the Euro Area” JEAN-BERNARD CHATELAIN (Paris School of Economics) and Kirsten Ralf: “Ramsey Optimal Policy versus Multiple Equilibria with Fiscal and Monetary Interactions” JEAN-MARC ATSEBI (UCA-CERDI), Jean-Louis Combes ; Xavier Debrun and Alexandru Minea: “Fiscal Stabilization: With or Without Space? ” |
| 15:30 – 16:00 | Coffee break |
| 16:00 – 17:30 | Institutions and Rules (Chair 3) CHRISTIAN KASTROP (Bertelsmann Stiftung): “Fiscal Rules When Monetary Policy is Constrained” Mitu Gulati, UGO PANIZZA (Graduate Institute, Geneva), Mark Weidemaier, and Grace Willingham: “When Governments Promise to Prioritize Public Debt: Do Markets Care?” |
| 17:30 -18:30 | Cocktail |

| <i>Friday, January 31</i> | |
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| 8:30 – 9:00 | Welcome Coffee |
| 9:00 – 10:45 | <p>International Aspects (Chair 4)</p> <p>LUISA LAMBERTINI (EPFL, Lausanne) and Christian Proebsting: “Does Austerity Go along with Internal Devaluation?”</p> <p>Antonio Afonso, JOAO JALLES (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.”</p> <p>HUBERT KEMPF (Ecole Normale Supérieure Paris-Saclay), “Policy Mix in a Monetary Union: Design Issues”</p> <p>Discussant: CAROLINA ULLOA SUAREZ(Université d’Aix-Marseilles)</p> |
| 10:30 – 11:30 | <p>Policy panel—Monetary-fiscal coordination: what shapes it, what shakes it?</p> <p>ERIC LEEPER, ROEL BEETSMA (University of Amsterdam), CHRISTOPHE KAMPS (European Central Bank), LUISA LAMBERTINI, DOROTHÉE ROUZET (OECD)</p> |
| 11:30 – 12:15 | <p>Concluding Address:</p> <p>“Sustaining Policy Coordination: What Can Macroeconomists (Still) Learn from Game Theory?”</p> <p>GRÉGOIRE ROTA GRAZIOSI, Director CERDI</p> |