

Comments on Corsetti et al.

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Two innovative contributions

- MP and FP should be strategic complements
 - In a tail risk situation where both policy
- Exit tail risk by going to the middle of t
- Old principles but re-engineered to curi
- New view on policy coordination raises
 - Why are we stuck in tail risk situation?
 - Can we expect FP to do it right?
 - Should MP continue to carry the world?



Why are we stuck in tail risk situation?

- Shocks, not all exogenous
- Low R^*
 - Structural causes (saving glut, demography, productivity, inequality, etc.)
 - Interest rates low for far too long + yield curve control when demand expectations are depressed
 - Another multiple equilibrium story
- Very active MP substituting for inactive FP
 - Before getting into tail risk situation
 - Lack of complementarity outside tail risk situation

Can we expect fiscal policy to do it right?

- Poor track record
- Last crisis: 2007-8
 - Good for a couple years, then premature withdrawal
- A key reason : fear of indebtedness
 - Poorly understood
 - Political but also 'alchemy' and reliance on poorly designed rules
- Need for science-based fiscal rules
 - A shining example: New Zealand (not just Covid)
 - Urgent in the Euro Area to avoid premature withdrawal

Should MP continue to carry the world?

- Central banks saved the world until they became stuck
 - They invented more instruments that are not effective enough to do the job
 - Low for long interest rates at their lower bounds
 - Balance sheet expansions
 - Macro-pru is not monetary policy
 - They encouraged inactive fiscal policies
 - Even when $r < g$
- Can they stop?
 - Can mandates be reinterpreted?
 - Is monetary dominance a threat to independence?

The particular case of the Euro Area

- Coordination ECB-19 governments
 - No mechanism
 - New: A sort of coordination among governments
 - Differing national conditions and fiscal policy sovereignty
 - ECB independent but under influence
- Two suggestions
 - Ditch Stability and Growth Pact and replace with a good science-based rule before end of 2021
 - ECB to stop trying to 'save the world'
 - Complementarity, yes: Backstop to debts (aka balance sheet policy)
 - Substitutability, no: exit negative rate (cf Sweden)

Thank you.