

## ROUNDTABLES ON CENTRAL BANKING AND MONETARY POLICY

### ROUNDTABLE 1: The monetary future of Europe,

Wednesday, 15<sup>th</sup> June 22.

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**Session 1.1:** *Chair: Martin Sokol*

**Discussion A: How should the European financial infrastructure and monetary policy (in the eurozone and beyond) be re-designed to promote more balanced development between the core and its peripheries (including the East-Central European periphery)?**

- **Question raised asking at what point will systemically important Central Banks reinstate supports that were evident worldwide during the pandemic and 2008 financial crises.** Post pandemic liquidity facilities are drying up leading to significant fall out, rising rates, volatility and panic among bond holders.
- **Whilst more progress/agreement within Europe about what to do (having learnt from previous crises – design of new anti-fragmentation instrument), reform of fiscal roles will be where the action will be.** On the other hand, an effective reform on monetary policy is unlikely to really work (prohibiting finance does not really work) given politics and the broad interpretation of the legal document which outlines what the ECB does.
- Europe, comprising 19 countries 1 central bank, has no shock absorption capacity/no single treasury. The current fossil crisis will impact countries differently in pricing levels – peripheral countries will be hit harder. Volatile inflation will make the job of the ECB that much harder. The ECB monetary policy works on macro level while **what we need is targeted monetary policy to deal with a prolonged crises and with the different composition of economies** - the same argument as 10 years ago but worse with covid, fossil, energy, geopolitical dimensions, trade and much more.
- Technocrats know increasing interest rates won't help and national bank/gov putting pressure on them to increase rates along with possibly crushing the green agenda in the face of inflation. Central paradox of social power of money eg USA targeting of money to minorities in last crisis, yet central banks are agile and act alone allowing politician to sit on their hands. **Need to rethink if technocrats should be making these decisions efficiently versus diversity and democratic legislature (template in S.E Asia for example).**
- Recent inflation issues draws' attention to fact of that Central banks can do little outside of managing sources/supply chain. Silo Thinking within institution leads to the question of central banks independence – as unlikely to go against those who empower them e.g. Bank of England when asked re targeting sectors – “not us” it's a treasury job but Treasury advised in reverse. **Given this do we need to look at the creation of a new institution to make targeted decision on steering finance?**
- Optimistic until inflation and Ukraine war hinder the steps the EC were willing to make in fundamental reform around the preferential treatment of the green agenda, now postponed (on a positive note, more time to lobby). Concerns about Ukraine and fiscal policy as governments worry about overheating their economies. Post pandemic recovery was not going well for countries in south and east Europe. Key question will there be enough fiscal capacity to support these countries to transition. Fiscal rules need to be more country specific with more flexibility. **Fiscal rules should support the**

**convergence on more explicit goals to foster transition funds with more country specific rules yet currently there is no binding agreement.**

- The fundamental problem within Europe is well known - monetary sovereignty without accountability (Brussels) leaves limited space to deal with the issues and each new crisis demonstrates this more. Especially for countries outside the EU union, but within Europe eg Greece & Italy helped while others outside fall victim – **what are their access routes to shield those countries within Europe but outside of the EU union from monetary policy within Europe.**
- **Increased eurozone differences with the single currency within Europe hasn't worked** whilst countries outside have at their disposal the exchange currency tool. Relevant in Croatia who are currently trying to adopt euro as a currency.
- Baltic states during the global crisis led to severe austerity. These countries having joined the EU were still impacted badly which has led to a rise of extreme political groups, supply chain issues and inflation. Geographically non- EU members were more severely impacted. **Beyond EU, rising rates will increase borrowing for countries who cannot afford the green transition.**

**Session 1.2: Chair: Leonardo Pataccini**

**Discussion B: How can financial infrastructure and monetary policy simultaneously support balanced development, the green transition, social justice and democratic accountability in Europe (and beyond)?**

- Bank independence - should banks co-ordinate to keep their independence; as they deal with more and more climate related supply shocks without the right tools to act yet still pressured to act, making existing failures more apparent. Should they accept more co-ordination to keep their independence to fend off that danger. Democratic deficits- legitimacy to Central bank actions (ie second amendment obliging ECB to take into account political guidance from parliament, council and other institutions. Also the sunset clause where elected representatives re-negotiate treaty). Avenues laid out already to support central bank actions. Inequality: asymmetry that lies at the centre eg contracting and expansionary shocks over a period of time monetary policy redistributes money from poor to rich regions, effects last longer in poorer regions. Whilst monetary policy of low interest rates and QE are desirable to address inequality – a more relevant question are to ask what tools the ECB are using to target inequality. Inequality meet much the same criteria as climate change - the same rational the ECB applied to addressing climate could be applied to address inequality.
- Contractionary versus expansionary policy from US context during early months of pandemic/recession led to extreme fiscal expansions with the amount of financial support to households leading to a decrease in household poverty rates. It improved living conditions for many poor households. Central banks in the USA, during the recession, targeted growth and reduced inequality. We need government to spend through government fiscal policy. Federal governments are politically blocked, hindered the expansion of spending. Spill over. Solution perhaps to appoint members of central banks.
- Globally in last 10 yrs the big central banks have been quietly in sync. Without government and international organisations stepping in you cannot rely on the financial institutions to step up as they have shown with devastating climate change impact in Africa. Financialised economy cannot help them lend to poorer countries to help them develop greener economies when compare to the real damage climate change impacts their countries and lives.
- democratic legitimacy – flip side – Central banks are becoming political involved when this is not their remit. Inflation control/ rate hikes are the tools used, while recommending targeted intervention is

seen as political tool and not possible. Central banks cannot get political which means lobbyist can intervene. This has relevance to the current inflationary situ and will become apparent. Research in UK monetary policy and Fiscal reform need to be subordinated as they are mission orientated resisting the current effort to market fixing. The state can shape new markets in support of the green transition – while EU taxomony generates frustration. Only example of democratic prioritising of sectors is the green sector - Is there hope for it still?

- Be careful what you wish for- for Central bank to create their own policy – is a dangerous tool in the wrong hands. The criteria for green finance – the need to have a transition within a short time should have been the approach as achieved during WWII. ECG criteria limits ability (with inherent soft targets and rules) when compared to what was achieved, independent of market, in rebuilding Belgium post WWII – mostly public rather than private. Finance is now privatised. Lessons in history that can teach us how to steer capital where it needs to go. Rethink/reinstitute these examples.
- Consider actions beyond central banks. Explore the power of the central banks for change. We are in the regime of financialised capitalism and central banks are in it, so how can they be used more democratically and shape/address inequalities. Direct money financing of fiscal and monetary policy is a channel where much can be done. Must be socially just. There will not be balanced development unless done; so need to press, in union. Not sole or core/periphery separate. Wither wise - trouble ahead.
- Changing roles of central bank or more honest role of what central banks are doing in society. Central bank policies and income and wealth inequality:

#### **Discussion: suggestions for further action**

- Establishing working group
- Launching working paper series
- Potential for joint articles
- Collecting sharing latest publications.

#### **Links shared by participants:**

Mainstreaming monetary finance in the covid-19 crisis

<http://www.positivemoney.eu/wp-content/uploads/2020/07/Mainstreaming-Monetary-Finance.pdf>

The politics of the ECB's market- based approach to government debt

<https://academic.oup.com/ser/advance-article/doi/10.1093/ser/mwac014/6554757>

Central bank and inequalities: Old tropes and new practices

<https://osf.io/preprints/socarxiv/wvtjx/>

Green central Banking (& legitimacy issues & Western post WWI and SE Asia templates)

<https://osf.io/preprints/socarxiv/ymre2>

Blog in this in relation to the impact of rate hikes on green transition here:

[https://greencentralbanking.com/2022/05/19/greenflation-central-banks-fossilflation-inflation/?utm\\_source=twitter&utm\\_medium=social&utm\\_campaign=news](https://greencentralbanking.com/2022/05/19/greenflation-central-banks-fossilflation-inflation/?utm_source=twitter&utm_medium=social&utm_campaign=news)

Working Paper: Fiscal space-monetary accommodation <https://osf.io/preprints/socarxiv/yxjh5/>

Paper: Central bank policies and income and wealth inequality: A survey  
[https://www.dnb.nl/media/k15lkren/working-paper-no-594\\_tcm47-375929.pdf](https://www.dnb.nl/media/k15lkren/working-paper-no-594_tcm47-375929.pdf)

