



REPORT ON THE  
COEURE WORKSHOP ON

## “Fiscal and Monetary Policies after the Crises”

Organizers: **Ramon Marimon** | European University Institute  
**Giancarlo Corsetti** | University of Cambridge

Theatre, Badia Fiesolana  
Via dei Roccettini, 9 – San Domenico di Fiesole (Florence)

5 June 2015

Rapporteur: **Fabian Schütze** | European University Institute

- Workshop programme
- Rapporteur’s report
- Workshop participants

10 September 2015



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### Background on COEURE:

The **COEURE Coordination Action** (which stands for COoperation for EUropean REsearch in Economics) brings together the key stakeholders in the European economic research space – funders, policy-makers and researchers – in a process of stocktaking, consultation and stakeholder collaboration. The aim of this process is to identify the knowledge gaps on key EU economic policy issues and assess the current challenges and opportunities facing European-based researchers, with the ultimate goal to inform the European agenda for research funding. COEURE is funded by the FP7 SSH research programme and it is coordinated by the European Economic Association.

## ■ PROGRAMME

### Friday, 5 June

- |                    |  |
|--------------------|--|
| <b>8.30 – 9.00</b> | Registration   |
| <b>9.00 – 9.10</b> | Presentation of the COEURE project <b>Ramon Marimon</b>   EUI and UPF – Barcelona GSE<br>The EC DG Research & Innovation perspective <b>Marianne Paasi</b> |



This project has received funding from the European Union’s Seventh Framework Programme for research, technological development and demonstration under the grant agreement no 320300.

09:10-11:00

**Session 1**

*Overview and Ongoing Research Agenda: Fiscal and monetary policies after the crisis*

Chair: **Marianne Paasi** | EC DG Research & Innovation

**Giancarlo Corsetti** | University of Cambridge and **Charles Brendon** | University of Cambridge - brief presentation of survey draft

Discussion by invited speakers:

**John Hassler** | Stockholm University

**Isabel Correia** | Bank of Portugal

**Benedict Clements** | IMF

Debate with audience

11:00-11:30 Coffee break | Lower Loggia

11.30-13:00

**Session 2**

*Research Assessment: Designing stabilization and growth policies in the context of debt overhang and large, persistent, negative output gaps*

Chair: **Marc Ivaldi** | Toulouse School of Economics

Discussion by invited speakers:

**Coen Teulings** | University of Cambridge

**Zsolt Darvas** | Bruegel

**Richard Portes** | London Business School, CEPR and EUI

Debate with audience

13:00-14:00 Lunch | Lower Loggia

14.00-16:00

**Session 3**

*Research Assessment: Designing stabilization and growth policies in a monetary union with structural imbalances and limited fiscal risk-sharing*

Chair: **Thomas Hintermaier** | University of Bonn

*Business Cycle Accounting as a diagnostic tool for imbalances* – **Pedro Brinca** | EUI and **Francesca Loria** | EUI

Discussion by invited speakers:

**Árpád Ábrahám** | EUI

**Jürgen von Hagen** | University of Bonn

Debate with audience



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16:00-16:30 Coffee break | Lower Loggia

16.30-18:30 **Session 4**

*An Agenda for European research on Fiscal and Monetary Policy: challenges, strengths and needs*

Chair: **Michele Boldrin** | Washington University in St. Louis

Discussion by invited speakers:

**Werner Roeger** | European Commission

**Benoit Mojon** | Bank of France

**Ramon Marimon** | EUI and UPF – Barcelona GSE

Debate with audience

19.30 Dinner | Lower Loggia - by invitation only

#### Workshop Organizers:

**Giancarlo Corsetti**

Professor of Economics  
Cambridge University  
P.I. of COEURE's Macro Survey

**Ramon Marimon**

Professor of Economics  
European University Institute  
and UPF – Barcelona GSE  
Exec. Comm. of COEURE

#### Contact and registration information:

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#### Rapporteur:

**Fabian Schütze**

PhD researcher  
European University Institute



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Report:  
COEURE Workshop on  
“Fiscal and Monetary Policy after the Crisis

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**Ramon Marimon** | EUI  
**Gincarlo Corsetti** | University of Cambridge

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5 June 2015

# Session 1: Overview and Ongoing Research Agenda: Fiscal and monetary policies after the crisis

Chair: **Marianne Paasi** | EC DG Research & Innovation

**Giancarlo Corsetti** | University of Cambridge and **Charles Brendon** |  
University of Cambridge — brief presentation of survey draft

Discussion by invited speakers:

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**Isabel Correia** | Bank of Portugal

**Benedict Clements** | IMF

Debate with audience

## Presentation and Discussion

The chair, Marinne Passi, commences the conference by presenting COEURE's aims. COEURE shall foster European research cooperation on questions of utmost importance for a thriving Europe. Researchers are asked to supply new economic theories scrutinizing the roots of the financial crisis and European debt crisis. The stance of current economic research on economic stabilization in large recessions, as detailed in the survey, is presented by Charles Brandon. He corroborates Marianne Passi by stating that the Financial crisis and European crisis pose hitherto unseen challenges requiring new economic theories. In particular, the zero lower bound for interest rates exhibit intricate and unsolved theoretical questions and preclude policy makers from stimulating economic growth. Charles Brandon presents reasons for attaining the zero lower bounds and policy instruments to overcome it from the vantage point of the Euler equation. Gincarlo Corsetti concludes the presentation of the survey by presenting its stance on the state of the monetary union. He begins by noting that the current crisis highlights the suffering entailed by imperfect risk sharing across borders. Current academic research discusses how to improve risk sharing within a monetary union. For example, transfers and national fiscal policies can potentially imitate the steering role undertaken by national central banks prior to the creation of the currency union.

The survey's presentation is followed by a discussion of invited speakers. Especially John Hassler and Isabel Correia confirm the survey's claim that new economic questions surfaced during the recent crisis which cannot be answered with existing economic theory. John Hassler states that the viability of the unprecedented policies undertaken by major central banks cannot be assessed with monetary theory yet. In contrast, John Hassler thinks theory offers a good guide in chartering the discretionary fiscal policy called for by the crisis. He concludes his comments with a plea for formulating robust policy recommendations that work well in even if the theoretic economic models might not fully mirror economic relationships seen in reality. Besides understanding the effects of the novel policy instruments Isabel

Correira additionally wants researchers to consider the mandate of the ECB and its accountability in democratic societies. In contrast to John Hassler Isabel Correira identifies a long route to understanding fiscal policy in a monetary union. She emphasizes that fiscal policy should overcome existing economic frictions through specific, state contingent taxes. Selecting the right menu of taxes requires detailed understanding of the economic environment. The last invited discussant, Benedict Clements evokes further challenges economic theory needs to understand from his perspective as policy advisor with the IMF. He advocates studying the the global dimension of monetary policy through its effects on exchange rates. Furthermore, the large increase in outstanding public debt and its impact of fiscal policy effectiveness require further scrutiny.

The chair Marinanne Passi invited comments from all participants of the conference. Michele Boldrin, Richard Portes and Jürgen von Hagen question the viability of viewing the current economic crisis through the Euler equation. Richard Portes warns on the empirical validity of the Euler equation. Michele Boldrin contends that the current crisis is a crisis of insufficient economic growth instead of a temporary deviation from the natural output. Jürgen von Hagen states the financial crisis unfolded in financial markets in general and housing markets in particular. Economists therefore need to study the effect of relative asset prices which the Euler equation cannot take into account.



# **Session 2: Research Assessment: Designing stabilization and growth policies in the context of debt overhang and large, persistent, negative output gaps**

Chair: **Marc Ivaldi** | Toulouse School of Economics

Discussion by invited speakers:

**Coen Teulings** | University of Cambridge

**Zsolt Darvas** | Bruegel

**Richard Portes** | London Business School, CEPR and EUI

Debate with audience

## General Discussion

The chair Marc Ivaldi welcomes comments from Coen Teulings, Zsolt Darvas and Richard Portes on the survey. The relationship between house prices and the origins of the current economic crisis and its impact on fiscal policy features prominently in all three remarks. Based on his experience as president of the Netherlands Bureau for Economic Policy Analysis, Coen Teulings recommends high wage inflation in northern European countries and stagnant wages in southern countries in conjunction with a long term plan to reduce outstanding debt (private and public) levels as ideal solution to the current crisis. In contrast to Charles Brandon's premise that the zero lower bound is attained because of excess savings, Coen Teulings thinks secular stagnation (in particular demographic factors and the demise of the pay-as-you-go (PYGO) pension) causes the decline in interest rates. Similar to Coen Teulings, Zsolt Darvas warns that delineating a fall in the natural interest rate due to excessive savings or secular stagnation respectively is difficult but essential for explaining and curing the present economic malaise. Richard Portes advocates including the interactions between macroeconomics and finance in the survey. He recommends analysing an alleged shortage of safe assets, the impacts of monetary policy on macro variables and the destabilizing effects of macroeconomic variables onto markets for credit default swaps.

The ensuing discussions in the general audience voiced concerns about the inadequacy of current economic models for assessing economic time series. However, policy makers often need to know whether economic variables are disturbingly large or low to design corresponding policies. Michael Boldrin raises doubt whether the tools at our disposal allow describing house prices are over- or undervalued. Ramon Marimon warns that economic models are not capable of generating the empirically observed high outstanding debt with high spreads. Finally, Werner Roeger purported that economist cannot infer from current account levels whether trade imbalances exist.

# **Session 3: Research Assessment: Designing stabilization and growth policies with structural imbalances and limited fiscal risk-sharing**

Chair: **Thomas Hintermaier** | University of Bonn

**Pedro Brinca** | EUI and **Francesca Loria** | EUI — Business Cycle Accounting  
as a diagnostic tool for imbalances

Discussion by invited speakers:

**Árpád Ábrahám** | EUI

**Jürgen von Hagen** | University of Bonn

Debate with audience

## Presentation and General Discussion

The chair invites Francesca Loria to begin the session by presenting her joint work with Pedro Brinca about “Business Cycle Accounting as a diagnostic tool for imbalances”. The model empirically measures to which extent output fluctuations originate from labour markets, government spending, technological fluctuations or consumption-saving decisions for OECD countries during the great recession. Each of these four guises are linked to economic theories helping policy makers to ameliorate the underlying causes. The discussant Jürgen von Hagen raises concerns about misspecification of the model. He advocates including investment decisions of firms in the analysis. He also attributes the documented negligible importance of government spending to TARGET 2 transfers within the Eurozone. Árpád Ábrahám lays out how an optimal financial stabilization fund should be designed according to joint research with Eva Carceles-Poveda, Yan Liu and Ramon Marimon. The fund should absorb existing national (short-run) sovereign debt and pool it into long run debt. Each participating countries redeems the joint outstanding debt along its recent economic performance. The fund must be designed such that each country benefits unilaterally from participating (in other words introducing the fund must be politically feasible).

The general discussion centers around the optimal arrangement of transfers with the Eurozone, sparked by remarks of Ramon Marimon and Jürgen von Hagen. According to Jürgen von Hagen transfer should ideally be targeting European citizens and not their governments. He contents that mainly pension and unemployment benefits contribute to fiscal transfer within Germany, making East-West transfers between federal states look pale in comparison. He thinks such transfers are politically infeasible in the near future within the European Union. Charles Brandon agrees that such transfers as unemployment and pension insurance are indeed desirable but questions on which contingencies such transfers could be based: Being unemployed in Spain and Germany is observationally equivalent but the underlying events leading to this outcome might be very different.

# **Session 4: An Agenda for European research on Fiscal and Monetary Policy: challenges, strength and needs**

Chair: **Michele Boldrin** | University of Washington

Discussion by invited speakers:

**Werner Roger** | European Commission

**Benoit Mojon** | Bank of France

**Ramon Marimon** | Bank of France

Debate with audience

## General Discussion

The chair Michele Boldrin asks Werner Roeger to open the concluding session about the survey from a policy maker's perspective. He attributes the slow recovery partly to a large and persistent output gap and a decline in trend growth. He sees a need for structural reform to accelerate economic activity but, in line with the survey, identifies risk of implementing structural reforms in the midst of a crisis. He says policy makers also tend to think the zero lower bound has been reached because of a lack of investment and not to a shock to consumption, as described in the survey. The European Commission's plan to kick-start investment should accordingly lift interest rates. Finally, the European Commission would be grateful for more precise estimate about the fiscal multiplier. Benoit Mojon commented on the survey from the perspective of a central banker. He questions why existing economic literature confines central banks to operate exclusively with one interest rate as they actually try to manipulate various interest rates. For example, central banks influence the entire term structure of interest rates as well as credit spreads borrowers of the same ranking by rating agencies but different geographic denomination pay. Benoit Meojon also emphasizes the need to understand how asset prices and expectations about them evolve. The last discussant Ramon Marimon puts forward a series of problems and opportunities for future research. He stressed that economic research should help governments and central banks to implement time consistent policies and contingent policies.

## **List of participants – COEURE Workshop 5 June**

Benedict	Clements	IMF
Jurgen	Von Hagen	University of Bonn
John	Hassler	Stockholm University
Coen	Teulings	University of Cambridge
Zsolt	Darvas	Bruegel
Werner	Roeger	European Commission
Michele	Boldrin	Washington University in St. Louis
Isabel	Correia	Bank of Portugal
Patrizio	Tirelli	Università di Milano Bicocca
Thomas	Hintermaier	University of Bonn
Benoit	Mojon	Banque de France
Eunate	Mayor	Toulouse School of Economics
Marc	Ivaldi	Toulouse School of Economics
Charles	Brendon	Cambridge University
Giancarlo	Corsetti	Cambridge University
Richard	Portes	EUI
Ramon	Marimon	EUI
Giorgia	Giovannetti	EUI
Arpad	Abraham	EUI
Francesca	Loria	EUI
Pedro	Brinca	EUI
Marianne	Paasi	EC CG Research & Innovation
Dr. Jens	Klose	German Council of Economic Experts
Prof. Dr. Frank C.	Englmann	University of Stuttgart
Alexander	Mihailov	University of Reading
Sang	Seok Lee	Bilkent University
Filippo	Pallotti	Sant'Anna School of Advanced Studies
Emmanuel	Mamatzakis	University of Sussex
Paul J. J.	Welfens	European Institute of International Economics Relations (EIIW)
Dr. Stefan T.M.	Straetmans	Maastricht University
Johannes	Fleck	EUI
Tuomo	Virkola	EUI
Wojciech	Paczos	EUI
Anna	Rogantini	EUI
Nicolas	Aragon	EUI
Andrea	Gazzani	EUI
Dominik	Thaler	EUI
Antoine	Camous	EUI
Alejandro	Vicondoa	EUI
Alessandro	Ferrari	EUI
Rana	Sajedi	EUI
Viktor	Marinkov	EUI
David	Koll	EUI
Fabian	Schutze	EUI
Milena	Wittwer	EUI
Fabrizio	Germano	EUI
Caterina	Guidi	EUI

Francesca		
Marijn	van der Sluis	EUI
Kirill	Shakhnov	EUI
Daniel	Schulz	EUI
sona	kalantaryan	EUI
Eugenia	Vella	EUI
Pawel	Doligalski	EUI
Tobias	Tesche	EUI
Abian	Garcia Rodriguez	EUI
Bjoern	Bremer	eui
Benedikt	Dengler	EUI
Salvador	Pérez-Moreno	Universidad de Málaga
María J.	Angulo- Guerrero	Universidad de Málaga
Juan	Dolado	EUI