

Luncheon Discussion: Unemployment in the Euro Area

Chair: Peter Blair Henry

Ms. Romer: I'm as big a proponent of structural reform as you seem to be. But what's the evidence that monetary and fiscal policy won't do something without the structural reform, which seems to be a central theme of what you were saying? And given that countries may not get their act together fast enough to do the structural reforms, does it actually make sense to not be doing the fiscal and the monetary stimulus to try to deal with the unemployment problem?

Mr. Draghi: You ask two questions. The first is why is monetary policy less effective without structural reforms? I'll give you an example: the Targeted Long Term Refinancing Operations (TLTROs) that the ECB will launch in September. These operations are a way to fund banks at very low rates, but asking them to finance the nonfinancial private sector (like SMEs), rather than the government as they often did in previous operations. If the business environment is not conducive to investment, the TLTROs will be much less effective. If you are an SME and you want to open a new shop, but you have to wait one year to get a license, and then you are heavily taxed, you will not apply for credit. Without structural reforms that create a business- and investment-friendly environment, the demand for credit will be depressed and this makes monetary policy actions less effective.

The second question is different. Would it make sense to do it anyway, even if governments haven't done the structural reforms? This is subtler. Usually the principle is that if you know that what you're doing amounts to nothing, then it is better not to do it because there are bound to be some costs from acting. However, institutions, like central banks, have a mandate, which in our case is to maintain price stability. Therefore, these institutions have to act in compliance with their mandate to achieve the objective of price stability.

Mr. Gurría: You were fantastically effective that day before the Olympics with the "whatever it takes," and you've been very, very effective with the guidance you've provided ever since. Now everybody seems to be saying, but now you have to do more because it's a very weak economic situation in Europe. Second-quarter numbers, as you alluded to, tend to confirm that. But of course you said even in July of 2012, you said within the mandate, and that part seems to elude people. People don't remember that, but they just remember the "whatever it takes." There are constraints and at the same time, it is 18 countries, not just the Fed, or the Bank of England, or Mr. Kuroda, the first arrow of buying, doubling the money supplies. So, where are your degrees of freedom, or what are your thoughts about going forward or going further down?

Mr. Draghi: I touched upon this during my speech. I said that we have a price stability mandate. I also conveyed how we see recent inflation developments. I acknowledged that there have been significant downward revisions in inflation expectations over a variety of horizons. And I said that the Governing Council would acknowledge these developments. For some time now, we also have been saying that within its mandate the Governing Council will use all the available instruments needed to ensure price stability over the medium term.