

Luncheon Discussion: Sustaining Openness in a Dynamic Global Economy

Chair: Susan M. Collins

Mr. Spriggs: You spoke of labor standards, and so I'm happy to hear you say that because it is often the case that when someone says "labor standards" that gets put in the pile of protectionism. There's a unique situation that seems to be brewing in France, so I'd like to have your view on it. The current agreement allows for the posting of workers who are still being paid the wages and labor standards of the country that sent them. The complaint in France is over Eastern European wage levels; and the abuse of some employers in France appears to be to use Eastern European workers as substitutes as opposed to using the free movement of workers as an opportunity to integrate their operation. Would you speak on the challenge of maintaining labor standards? The Eastern Europeans seem to be upset at the French president because he seems to want to lean toward all workers in France being paid French wages.

Ms. Mann: First, thank you very much for calling out some of the research that we've done at the Organisation for Economic Co-operation and Development. I think it has been important in evaluating some of these issues. There was one thing that you said at the end, which was, "that lacks in regulation and monetary accommodation together create a recipe for potentially rekindling the underpinnings of the financial crisis." A slightly different way to pose this question

is, to what extent do you see the regulatory environment as complementary to monetary policy versus (what some people have come to be concerned about) the extent to which micro and macroprudential policy are being viewed as a substitute for monetary policy?

Mr. Feldstein: Three years ago, when you spoke here at lunch, you gave a brilliant talk laying out an agenda for policy in the context of the problems that you saw. Three years later, how do you think it worked out?

Mr. Draghi: Let me address the first question and also make the premise that I'm not a labor economics expert. The EU gave itself a certain set of common rules protecting labor all across the members of the Union. But then of course, domestic policies do matter a lot. So the path where all countries have to navigate in Europe is basically to ensure labor standards that first are in compliance with the European Union laws, but also that would prevent a backlash against openness and at the same time being competitive. It's like in a sense a truck and their countries have to have rules and regulations that ensure both objectives because we don't have a common labor legislation for all countries in Europe. We have a certain set which assures a level playing field up to a point, and then countries are free to do more, which unquestionably France did. So the issue is both, trying to reach both objectives. That is what France is trying to do now.

Now, I don't think regulation can ever substitute for monetary policy. It's good regulation. I warned against a possible combination between lax regulation and a common monetary policy because we had that in the period before the crisis. Regulation had been dismantled quite systematically in the 10-15 years before the great crisis, and at the same time for reasons that had to do with the macroeconomic business cycle, monetary policy was expansionary. We may disagree what is most important. You know there are as many of you as people here where what's more important—deregulation or monetary policy? But we all agree that certainly we don't want to have that combination again. But having said that, one may well reflect that lax regulation, there's never a good time for having lax regulation. That's it.

Now the point of how it worked. I said very well. But let me just step backward. I was actually discussing this at the table a few minutes ago. In 2012, we successfully addressed the euro crisis, the outcome of which was a situation where interest rates went dramatically down, but the exchange rate appreciated considerably because of the return of trust in the eurozone. During the course of 2013, we were basically still under the consequences of the recession that had taken place throughout the eurozone with a very appreciated exchange rate. By the end of 2013, it was pretty clear that there was a threat that inflationary expectations could become disanchored. So remember I first gave a speech in Amsterdam, where I set up the three stages that we would follow in monetary policy, saying that when and if we were to decide that the threat to disanchor inflationary expectations would become very, very serious, we would move into asset purchases, into QE. By the beginning of August, this threat of disanchoring became quite visible and serious, and that's why in this place three years ago I set the stage for the decisions that were prepared in December of the same year and taken in January of the year after. The experience has been very successful because the recovery has taken ground, and as I said at the beginning, it's at a stage of consolidation that is not as progressed as it is in the United States, but it's gaining ground. So we think that we haven't seen yet the self-sustained convergence of inflation toward the medium-term objective because there are several factors that are slowing this process. Mostly, these factors have to do with the labor market and the slowness with which nominal wages would react to the closing of the gap. But we see the recovery is proceeding. So on one hand, we are confident that as the output gap closes, inflation will continue converging to its objective over the medium term. On the other hand, we have to be very patient because the labor market factors that are slowing down and the low productivity are not factors that are going to disappear anytime soon. Therefore, a significant degree of monetary accommodation is still warranted.

Mr. Gorodnichenko: When you discuss the results of the Great Recession and global financial crisis, you said that some of the problems became addressed only in coordination. We have to have coordinated efforts to fight tax avoidance, lax regulation and so on. I was wondering if you can say we should have more coordination of

monetary policy or less coordination of monetary policy as a part of this effort to stimulate the economy across the scope?

Mr. Draghi: My remarks were strictly confined to regulation. But I should say that on another occasion, I think it was about a year ago, in Sintra, Portugal, I touched upon whether there could be more—I didn't call it coordination or multilaterally as when I was speaking about monetary policy because we are all bound by our own mandates. So that's the confine of the law. But one could think about what I called at the time "enhanced understanding," namely communication exchanges. What is important there, like a regulation and a multilateral convergence, is trust. Trust that monetary policy is being designed and implemented having in mind domestic policy objectives where inflation or employment depending on the jurisdictions. That is very important. I think more communication, more exchange of information would enhance this trust. I think more can be done on that, but it's not easy. It's not easy because we have the limits of the law, and there's also the need to explain why we do that. We are really at the very beginning on that. Also let me add that the experiences we had in the past of too tight coordination of monetary policy was never successful, or were partly successful at least in the very short run, but not successful in the medium and long term. If we go back to the various agreements and the abandonment of the various standards, it's a mixed record, which suggests that we've got to be cautious but not hopeless.