General Discussion of 'Fiscal, Monetary and Macroprudential Regimes: Incentives-Values Compatibility in Constitutional Democracies' and 'Global Trends in Interest Rates'

The discussion – noting the interdependence of fiscal, monetary and macroprudential regimes – was focused on: the difficulty of communicating monetary policy; making sure the perspectives of a wide variety of stakeholders are heard when determining policy; and committing to credible and independent guidance about the stance of monetary policy.

A participant started by noting that the stance of fiscal policy has implications for monetary policy settings and the stance of monetary policy. This interdependence between monetary and fiscal policy can create coordination issues and make it more difficult to communicate or commit to a policy path, something that decision-makers need to grapple with.

A further issue raised by participants was the role of offsets and distributional outcomes. Fiscal policy is often discussed as neutral with respect to inflation outcomes because of monetary policy offset. Similarly, monetary policy is treated as neutral with respect to distributional outcomes due to fiscal policy offset – yet the evidence and operation of both functions is limited. More consideration of how this works in practice, and what the trade-offs end up being with the instruments used would help to inform this.

Given this, participants noted two directions where communicating these trade-offs and approaches matters – for receiving advice from non-economists about the types of trade-offs that are valued, and for ensuring that central banks are accountable to the public with respect to the choices they make.

Participants debated how forward guidance functioned as both a communication strategy and an appropriate way for setting policy at the zero lower bound. Some participants saw the way that forward guidance was actioned, with time-contingent rather than state-contingent rules, as unnecessarily hampering the ability for central banks to respond to uncertainty with no benefit in terms of communication or the ability to commit. Such rules risk de-anchoring inflation expectations – especially in the face of supply shocks – and making any future monetary policy choices more costly.

There was also a discussion of how supply-side fiscal policy could help to weaken current constraints by helping to lift the neutral interest rate (r*). Even if this was the case, it would require central banks admitting that their choices are dependent on the nature of fiscal policy more generally – which risks making it harder to communicate monetary policy choices as a whole.