

Dietsch

Keywords

European Central Bank; European Central Bank monetary policy; European Central Bank mandate; EU monetary distribution; distributive action; distributive effects of monetary policy; distributive justice; monetary policy; monetary strategy

Topic: The European Central Bank should increasingly consider the distributive effects of its monetary policy

OVERVIEW

- (1) In general, central banks are not bound to address social and fiscal inequalities in the distribution of wealth, income and consumption.
 - Likewise, the European Central Bank's (ECB) primary mandate is not of distributive nature, but "to maintain price stability is the primary objective of the Eurosystem and of the single monetary policy for which it is responsible. This is laid down in the Treaty on the Functioning of the European Union, Article 127 (1)"¹
- (2) However, in the recent past and especially after and during the financial crisis, EU and ECB officials have acknowledged that this narrow conception of the ECB's tasks and objectives is increasingly difficult to uphold:
 - "Particularly at a time of exceptionally low interest rates and non-standard monetary policy measures, it is essential for us to be aware of all collateral effects – *including the distributional ones*, i.e. the potential economic damage to some parts of society; and the potential benefits for others."²
- Yves Mersch (Member of the Executive Board of the ECB)
 - Inequality is of interest to central banking discussions because monetary policy itself has distributional consequences which in turn influence the monetary transmission mechanism -> "For example, the impact of changes in interest rates on the consumer spending of an individual household depend crucially on that household's overall financial position"³

IN DETAIL

- (1) Evidence that monetary policy influences the distribution of wealth, income and consumption has, amongst others, been offered in the following reports and publications:

¹ <https://www.ecb.europa.eu/mopo/intro/objective/html/index.en.html>

² https://www.ecb.europa.eu/press/key/date/2014/html/sp141017_1.en.html

³ See above

- Report by the National Bureau of Economic Research (NBER)
https://eml.berkeley.edu/~ygorodni/CGKS_inequality.pdf
- McKinsey Global Institute Study
<https://mck.co/2JubEhQ>
- “The Redistributive Effects of Monetary Policy” – Working Paper
<https://bit.ly/2JvAI7X>
- Research by “De Nederlandsche Bank”
https://www.dnb.nl/binaries/Working%20Paper%20423_tcm46-307334.pdf

(2) Even though there is no concrete evidence of the European Central Bank practically taking into consideration distributive action – because doing so is beyond its mandate – there seems to be a growing understanding of the effects that ECB-policy can have on inequality and monetary distribution:

- “We need to be aware that there are distributional consequences of our actions – and these may well be particularly significant at times of exceptionally low interest rates and non-standard measures. It seems clear that there are different effects on different parts of society.”⁴

Topic: Political bodies/Organizations/NGOs in favor of reforming (or critically researching) the role of the European Central Bank and its monetary policy

Centre for European Reform

<http://www.cer.eu>

Council on Foreign Relations

<https://www.cfr.org/backgrounder/role-european-central-bank>

Institute for New Economic Thinking

<https://www.ineteconomics.org>

The Lisbon Council

<http://www.lisboncouncil.net>

⁴ <https://www.bis.org/review/r150519c.pdf>

FURTHER READING

- * <https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180205.en.html>
- * <https://www.ecb.europa.eu/press/key/date/2017/html/ecb.sp171206.en.html>
- * http://www.cer.eu/sites/default/files/publications/attachments/pdf/2011/p343_ecb-1682.pdf
- * <http://www.cer.eu/insights/ecb-not-german-central-bank>
- * <https://global.handelsblatt.com/opinion/the-ecb-needs-to-embrace-change-872602>
- * <https://www.bis.org/review/r150519c.pdf>
- * <https://www.ineteconomics.org/uploads/papers/PLIHON.pdf>