Discussion of Dr. H. Tietmeyer's paper

ARROW

Dr. Tietmeyer's very thorough paper gives rise to much food for thought. I will confine myself to two questions. The first is the use of monetary policy in combating unemployment. Dr. Tietmeyer suggests that contra-cyclical interest rate policy, attempting to overcome fluctuations in demand by changing interest rates, is not feasible. I am better acquainted with the workings of the Federal Reserve Bank system than with those of the Bundesbank. Analysts of the former say that to predict the Federal Reserve's interest-rate decisions, one must look at both the unemployment rate and the rate of inflation, so monetary policy is partly directed at unemployment. One must ask if the very large unemployment rates in Europe could have been lower had there been a more relaxed monetary policy.

You emphasized that policies of individual governments and central banks are very much affected by world markets. Thus interest rate policy for any individual country is constrained, but the question is whether cooperation among central banks might not be able to expand employment even though no one bank could do so.

My second question concerns the difference between financial markets and real capital flows, a difference that you emphasized. Now, the financial system itself uses resources; in your paper, you point out the increasing volume of labour and other resources going into the financial system. The question is, if the aim of the system is to promote and direct real capital formation and if the financial markets bear only a limited relation to real capital flows, are we perhaps investing too much in the financial markets?

TIETMEYER

Professor Arrow's first question is concerned with the role of monetary policy in fighting unemployment. It has been the experience of many countries that attempts to stimulate demand and employment over the long run by means of an anti-cyclical interest rate policy are seldom successful.

In many cases they simply end up producing more inflation, if only because of the time between recognising the problem, taking a decision and realising the effects of that decision. The fact that market interest rates fluctuate within an economic cycle by no means implies that real economic trends can be nudged in the desired direction by varying central bank rates.

A particular case is the structural unemployment prevailing in Europe: there would be little point in trying to combat that through interest rate policy. Undesirable developments in, for example, fiscal, social and wage policies cannot be corrected through changes in interest rate policy but can only be concealed, at best, by such means in the short run. The Bundesbank's monetary policy is therefore geared, above all, to creating the underlying monetary conditions for economic growth that is free of both tension and inflation by continually tailoring the money supply, as accurately as possible, to the production potential of the economy.

If such a monetary policy strategy is to be successful, there has to be a stable empirical link between the supply of money through the central bank and real economic activity. In contrast to some other countries, this prerequisite is still fulfilled in Germany. There are many reasons for the erosion of this stable link in countries such as the United States, Japan and the United Kingdom. One major reason is certainly that the main thrust of monetary policy in these countries has traditionally been to achieve short-term cyclical objectives. An anti-cyclical interest rate policy, however, often fails to achieve not only the objective of stimulating and stabilising real economic trends but, unfortunately, also helps to generate greater volatility in the financial markets.

Professor Arrow's second question regarding the possible excessive size of the financial services sector is justified in this context. It is true that volatile financial markets create a demand for hedging facilities and therefore open up new areas of business for the financial services industry. However, expanding the financial services industry is surely not an objective in its own right. The deciding factor is ultimately the effect it has on allocating productive resources. By contrast, a monetary policy geared to combating inflation and exerting a steadying influence can counteract a misallocation of productive resources without increasing the size of the financial sector unnecessarily.

As far as Professor Arrow's reference to an internationally coordinated monetary policy is concerned, I would first like to emphasise that for some time there has been a satisfactorily functioning system of cooperation between the central banks. This has taken the form of an intensive exchange of information and experience. The G 10 central bank governors meet once a month in Basel. The central bank governors of other countries, too, take part in some of the discussions. These meetings certainly attract less publicity than, for example, the world economic summits, which are staged with the interests of the media in mind. However, I am convinced that this form of monetary policy cooperation is much more successful in the end, even if — or precisely because — in most cases no interest policy agreements are made.

MUSELAY

Je crois que la contribution de M. Tietmeyer n'est pas seulement importante, mais très nécessaire et essentielle.

On constate que dans les encycliques pontificales antérieures à celle du Pape Jean-Paul II, on ne trouve presque rien sur le problème financier. Il s'agit quand même d'une question très essentielle, très nécessaire. On ne peut pas distribuer de richesse si cette richesse n'est pas constituée, n'est pas produite. Le problème financier de la distribution se pose partout comme une question essentielle. J'ai relu deux ou trois fois la contribution de Monsieur Tietmeyer, et voici la petite réflexion qu'elle a suscitée.

L'offre et la demande jouent un rôle déterminant dans la vie économique. Il est essentiel que l'on rétablisse un équilibre relatif entre ces deux facteurs afin qu'ils puissent remplir convenablement leur fonction. Ces deux facteurs ne sont pas contradictoires mais complémentaires. Il ne sert à rien de stimuler la demande, si l'offre ne la suit pas, car on ne récolte alors que l'inflation. Par contre, la mise en place d'instruments susceptibles de stimuler l'offre risquent d'être sans effet si la demande est anémique.

Nous savons bien que, depuis Keynes, les économistes n'ont jamais cessé de débattre la question si l'inflation serait favorable à l'emploi. Monsieur Tietmeyer explique très bien dans sa contribution que, visant à influencer la conjoncture économique, la politique monétaire ne peut qu'à court terme seulement stimuler l'accroissement et l'emploi.

Si on renonce à la stabilité monétaire, le pouvoir d'achat risque de prendre un très sérieux coup. La hausse ultérieure de l'inflation, conséquence de la faiblesse de la monnaie, mène nécessairement à une perte de compétitivité des entreprises et, avant que des mesures soient prises, exerce déjà des ravages aussi en matière d'emploi.

Nous savons que depuis quelques années, l'inflation ne constitue plus un problème majeur pour les pays de l'Union Européenne, tandis que le chômage reste un grand problème surtout dans les pays à monnaie faible. Je faisais mes études en Hollande et je continue de suivre l'évolution économique surtout dans ce pays.

Les Pays Bas sont arrivés, en 1995, à des meilleurs résultats, grâce à leur monnaie forte et à des mesures contre le chômage: une croissance économique de 3%, une inflation de 1,7%, un taux de chômage de 7%.

L'Europe actuelle est morose car elle est pleine d'incertitudes. C'est ainsi qu'une grande proportion de la population préfère l'épargne à la consommation. Alors, pour stimuler la demande, il faut d'abord susciter la confiance dans l'avenir. La stimulation de la demande par le déficit budgétaire de l'Etat conduit rapidement à l'impasse en raison du gonflement de l'endettement public. Elle mène aussi souvent au déficit extérieur.

En ce qui concerne l'offre, actuellement, le problème se situe principalement du côté des salaires. Au cours des dernières années, la relation entre le coût du travail et le chômage est devenue évidente. Un coût trop élevé du travail accélère la substitution entre le travail et le capital, le remplacement des hommes par les machines.

En Europe, au cours des trente dernières années, l'accroissement de la productivité s'est traduit presque automatiquement par une augmentation des salaires. Dans une situation de plein emploi, cette procédure est idéale: elle permet un juste partage du progrès. Elle correspond aussi à l'enseignement social de l'Eglise. En cas de sous-emploi, elle est cependant mauvaise, car elle rend l'intégration des chômeurs dans le circuit économique presque impossible.

A cet égard, le plus grand défi consiste à amener les travailleurs à se montrer solidaires avec leurs camarades moins favorisés. Il y a de beaux exemples à ce propos, mais aussi de mauvais. On pourrait citer le cas de Volkswagen de Wolfsburg et encore quelques exemples en Belgique et en Hollande.

La relance économique, ainsi basée sur l'offre et la demande, suppose aussi un effort coordonné au niveau européen. Les contraintes extérieures sont moins fortes pour l'Europe dans l'ensemble que pour chaque pays pris séparément. En effet, le commerce extérieur représente une part nettement moins grande pour l'ensemble de l'Europe que pour chaque pays isolé, car la somme des importations ne comprend pas l'échange intra-européen.

Quant à la discussion engagée sur les relations entre les différentes banques, je crois que le principe de la subsidiarité doit jouer un rôle important. Les Banques Centrales ne doivent intervenir qu'en cas de nécessité. Entre-temps, les petites unités bancaires devraient jouer un rôle important en proximité de la population.

TIETMEYER

Father Muselay has adressed a number of interesting points. His remark that financial markets and monetary stability have so far received comparatively little attention in the papal encyclicals seems particularly important to me. As far as I know, the meaning and necessity of a stable currency was first mentioned in *Centesimus Annus*. In contrast to more recent Catholic social doctrine, the writings of the Middle Ages include a fairly intensive discussion on monetary stability and the negative consequences of inflation.

I would also like to give special emphasis to what Father Muselay said about the effects of inflation. Lasting effects on the level of employment cannot be achieved by means of an inflationary monetary policy. There is absolutely no doubt that, over the longer run, it is the negative effects of inflation that predominate. Inflation induces uncertainty and makes it more difficult to plan for the future. We know from experience that in a period of inflation investment, whose effect on demand and capacity generally has a positive influence on the current and future employment situation, is reduced or does not take place at all. Inflation also accentuates social conflicts instead of solving them, as some advocates of a policy of easy money would like to have us believe. The ones who suffer most are the socially disadvantaged, who, as a rule, are particularly hard hit by the negative distribution effects of inflation. Monetary stability therefore has a socio-political dimension, too, and this factor has not yet been given sufficient attention in Catholic social doctrine.

Finally, I agree with Father Muselay that we can learn from developments in the Netherlands, even though in that country, too, there are naturally some tasks that have still to be done. In the past few years the economic trend there has been more positive than in other European countries, especially as the wage trend has moved largely in line with progress in productivity, rigidities in the labour market have been reduced and necessary corrections in the welfare state have been possible. For me, the Netherlands offer a European illustratio of the fact that, even under the conditions obtaining in today's financial markets, an improvement in the employment situation is possible if the right measures are taken and if these measures are borne jointly by all social groups.

SCHASCHING

Ich hätte zu den Ausführungen des Herrn Tietmeyer zwei kurze Anfragen. Die erste: Herr Tietmeyer hat überzeugend das Ausmaß und die Bedeutung der internationalen Finanzmärkte für die Arbeit dargelegt. Es muß festgestellt werden, daß die Frage der Finanzmärkte in der offiziellen katholischen Soziallehre eher bescheiden behandelt wurde. Meine Frage: Was könnte die päpstliche Akademie der Sozialwissenschaften beitragen, daß dieses Thema in der katholischen Soziallehre stärker behandelt werde?

Die zweite Frage: Herr Tietmeyer hat von der Bedeutung der Finanzmärkte für die optimale Allokation des Kapitals gesprochen. Gilt diese Allokation auch für die Entwicklungsländer oder werden gerade sie von den Finanzmärkten ausgegrenzt?

TIETMEYER

I entirely agree with Father Schasching. The topic of financial markets and monetary stability has to be treated in greater depth in the Catholic social doctrine. This certainly does not mean addressing the technical details. But the Catholic social doctrine should be concerned with the question as to how far ethical principles can and must apply to the conduct of financial market players. I could imagine that the Church will actually devise a few principles on this subject. I would like to remind you in this connection of Father Oswald Nell-Breuning, who wrote his doctoral dissertation on the topic *Grundzüge der Börsenmoral* (Fundamentals of stock exchange ethics) as far back as 1928. But it is not only the behaviour of market participants that is important. The regulatory framework is also important for the manner in which the financial markets function. The content of this regulatory framework has a role to play in deciding whether the financial markets can adequately fulfil their economic function of managing capital and whether the risk of critical developments can be kept as small as possible.

All countries, and particularly the developing countries, can benefit from satisfactorily functioning global financial markets. On the other hand, financial market crises can have serious negative effects on growth and employment and bring whole countries to the brink of ruin. I think that during the Mexico crisis mistakes were made from which one can and must learn. I think it is particularly important for the developing countries to create adequate financial market infrastructures before expecting to be successfully integrated into the global network of financial markets. A country's domestic policy must also be credibly geared to stability. Politically motivated considerations about prestige, unsound public financing, the retention of an unrealistic exchange rate pattern and too great an alacrity in opening up national financial markets are poor preconditions for the permanently successful integration of a developing country into the international financial markets. As the Mexico crisis has shown, such errors can bring not only one isolated country into serious difficulties but can also badly affect the entire international financial system at the same time.

I think another lesson can be learned from the Mexico crisis. If financial market crises are to be avoided, it is crucially important that the economic sanction mechanisms of the financial markets continue to function satisfactorily. Success in overcoming financial market crises must not result in a diminution of financial market players' awareness of risks. Anyone who wants to take his chance at making a profit must also be prepared to bear any potential losses. If, however, financial market participants who are hit by a crisis or, indeed, entire states think they can rely on generous international financial help, the probability of future financial market crises will increase with every rescue operation undertaken.

One thing is certain: global financial markets are now part of economic reality. This reality must not be overlooked or underestimated. Developments on the world's financial markets cannot be reversed, as some may perhaps hope. Globalisation is an irreversible process which one cannot avoid but which one must come to terms with.