

Philip R. Lane: Interview with Süddeutsche Zeitung



Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Markus Zydra on 26 January and published on 1 February 2021 as a shortened version in Süddeutsche Zeitung

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Mr Lane, the ECB aspires to be closer to the people. Distributing helicopter money would be a good way to go about that. Why does the ECB prefer to channel its support to banks rather than directly to citizens? Is this a taboo topic?

Of course we track the academic and the wider debate. But at the ECB we should focus on the policies that we are actually pursuing and the options that are on the table, and not the outer reaches of monetary theory.

Is the idea of helicopter money off the table for good?

It's not particularly productive to engage in hypothetical discussions, but let me come back to the basic issue. We expect economic growth and inflation in the euro area to return to their pre-pandemic levels before the end of this year. Prior to the pandemic, inflation was hovering around 1 per cent, but with a dynamic where inflation would, over time, rise closer towards 2 per cent, it was not a crisis situation. If economic developments are reasonably stable and moderate, monetary policy should be similarly stable and moderate.

The ECB repeatedly emphasises that it would be prepared to loosen monetary policy even more in an emergency. What options are still open to you? Purchases of equities or bank bonds or something like that?

The ECB and the Eurosystem have many excellent monetary economists, so everything is considered at some level. But these measures are not part of our current toolbox. Our active toolbox is a combination of our short term rates, asset purchases, targeted lending and our forward guidance, which is not only about explaining today's policy, but also about how we would respond to unfolding conditions in the future.

The ECB is working on a new strategy, one aspect of which is communication. The public expects you to better explain your decisions. Rightly so?

We are living in extraordinary times. Compared to 15 years ago, the role of central banks is very different now to perhaps its more traditional role. For example we are very active in quantitative easing and targeted lending to banks. All of this needs explaining. And the way people absorb information is also very different now, with the use of social media and a greater focus on visuals, for example. Through our "ECB Listens" event, for instance, we have received thousands of comments. It is clear that we need to explain our decisions to people clearly and in the simplest possible terms.

So let's give it a try: many Germans take a poor view of the ECB's zero rate policy. Convince the critics in simple words.

Low interest rates are a global development. We are experiencing a major structural change in the global economy. People want to save more but the global demand for investment is low. By comparison, the role of the central bank is secondary. Would it be that helpful to increase interest rates in this environment? Hardly, because it would make the situation worse, leading to more unemployment and less growth.

Is there no simpler way of explaining monetary policy?

I know of some comic strip-type presentations which attempt to do just that. We try as hard as we can to simplify, but we always need to be careful that simplification is not misleading. The most important factor is trust in the ECB: as a driver, I don't need to know exactly how the engine operates. I need to trust the car dealer and the mechanic to do a good job. The same goes for monetary policy. Not everybody needs to be a financial expert.

Trust in the ECB has declined considerably over the past few years. That's a bad thing for a central bank which sees itself as providing a service for citizens.

That's true. The surveys show that people have more trust in the euro than they do in the ECB. This is a clear signal that we need to better explain our task and policies. Perhaps then the level of trust in us would go up.

Some say central banks are plumbers. Are you a plumber?

There are two dimensions to this. The first is: when we talk about the

economy and interest rates, there is a whole machinery behind how the central bank connects the financial system and that really is similar to plumbing. The second is: Keynes once referred to economists as dentists, which is maybe similar to a plumber in some respect. People go to the dentist or call a plumber when they need one. Perhaps the same applies to central bankers.

Was it your childhood dream to become a central banker?

I grew up in Ireland in the 1980s, a time when the economy was in a bad state and unemployment was high. That was reinforced by the global financial crisis, during which Ireland suffered a lot from the boom-and-bust cycle. It was clear to me that economic policy had an important role to play in preventing these terrible outcomes. But the reason I studied economics was not just to understand the world, but maybe where I can, to play my part in making sure that economic policy, and in my particular role monetary policy, was supporting society and the economy. My move from academia to the Central Bank of Ireland, and now to the ECB, was very much in line with that.

The ECB has become the white knight in the euro area. Would you agree that without the ECB, the euro area governments would be incapable of carrying the debt burden?

Actually, over the past year, the far more important aspect has been the joint actions of European governments, especially the Next Generation EU facility. The major issue has been Europe standing together. That said, central banks are playing an important supporting role. But the reason for the low interest rates and our bond purchases are the low inflation pressures, which is also true in the United States and in the United Kingdom. We need to have a very supportive monetary policy, because without that we're not going to maintain stable prices and we're not going to bolster a recovery.

Still, the central bank is now the largest creditor of the euro area countries. Is there an upper limit to that support?

It's important to keep in mind that sovereign bond purchasing is a worldwide phenomenon. There are increasingly high holdings by the Federal Reserve, Bank of England, Bank of Japan and other central banks. We now hold around 30% of all sovereign debt outstanding in the euro area. And we have safeguards in place. What we do is driven by the price stability mandate and asset purchase programmes are only required when inflation pressures are too weak and interest rates are already very low.

European Commission surveys regularly show that people's perception of the inflation rate is much higher than the official figure. Does this perceived level of inflation undermine the ECB's credibility? After all, the ECB bases its monetary policy on the inflation rate.

It is inevitable that there are different perceptions of price changes in the general population. We look at whether our monetary policy decisions move perceptions of the inflation rate in the right direction. If anything, the fact that people across Europe perceive the inflation rate in different ways

suggests that prices are stable overall. In countries with really high inflation rates, everyone is acutely aware of just how much the prices have increased.

Some economists have called for the ECB to cancel sovereign debt at some point. What is your response to that?

The simple answer is: no, we cannot do that, because the Treaties don't allow sovereign debt cancellation. But, regardless of the legal aspects, cancelling debt would not be a good idea in general, and the debate is a digression. We are seeing that governments are able to issue a lot of debt and to do it at low interest rates in a sustainable way.

The ECB and European politicians have been speaking with one voice throughout the coronavirus crisis. They coordinate their actions, cooperate over support measures. Isn't this closeness dangerous?

We all have a problem to solve. I don't need to speak to a finance minister to discover that we need a loose monetary policy. Equally, every politician knows that governments need to invest more. So it is quite obvious that in this situation monetary policy and fiscal policy are pushing in the same direction. But I think life is made easier for everyone by good communication between the Eurogroup and the ECB so that they have a good understanding of our policy and we have a good understanding of what the finance ministers are up to. But this does not affect our independence. Indeed, the ECB is the most independent central bank. And there are plenty of examples where the ECB has tightened policy even if it might not have been convenient for governments.

The ECB wants to develop a "green" monetary policy. Environmental protection is a job for the politicians, not the central bank.

All sectors of the economy have to make sure that the way they operate is green and consistent with carbon transition, and that applies to the central bank as well. But the role of the central bank in the financial system means we can be a leader and a catalyst.

What is your relationship with ECB President Christine Lagarde like?

We have a very good strong relationship. She is an extremely impressive leader of the ECB, with decades of leadership experience at the IMF, running a global law firm, and of course her time in the French government. Leadership is also about making sure that the senior team works well, and there is a strong team spirit at the ECB.

For a while, the two of you were struggling with communicating your decisions. Ms Lagarde presented the decisions at the press conference and a day later you wrote your own blog. Are you better placed to explain the technical details than Ms Lagarde?

It was not my intention to give that impression, and it's wrong. Our monetary policy is a team effort – I, as chief economist, work in close coordination and agreement with the President. The intention was to reinforce and support the communication of our monetary policy decisions across multiple channels.

But perhaps it was all a bit too much. I stopped doing the blog on the day after the press conference in the autumn, because if it led to perceptions of difference, then it was problematic.

The ECB's working language is English, and you are the only member of the Executive Board who is a native speaker. What is it like?

People at the ECB have very good English. Of course, it makes my life easier because it's my primary language. That said, my Irish accent maybe adds a facet to the diversity of spoken English at the ECB!