

Using QE vs Inflation Schedules for Each Country in Europe

Idea for Future Research

By James Sly

In my recent working paper, *Economic Policy During and After a Pandemic* (Sly 2020a), I offer a new approach to monetary policy in Europe that uses a mathematical rule to determine the recommended amount of quantitative easing (QE) the European Central Bank (ECB) should implement based solely on how far inflation is from target. This idea is highlighted in another policy memo *Monetary Policy Reforms for Europe* (Sly 2020b), which is basically just an excerpt from the larger working paper, and describes how the ECB could develop a rule (a QE vs inflation schedule) for each individual country in the Eurozone to determine the desired amount of QE for each one of those countries. This is quite similar to a Taylor Rule, except instead of determining the optimal interest rate the rule calculates the optimal amount of QE, and instead of using inflation and the output gap to make the calculation, the QE vs inflation schedule would only use the inflation rate and the desired inflation target in its calculations.

If you want to understand how a QE vs inflation schedule would be developed, how it would work, and the likely advantages it would bring over current policy, I recommend you read the policy memo I referred to already. Ideally, an academic paper could be written that offered the details of this idea, establish how it would be set up, and then go through some policy simulations that would show what monetary policy would have looked like in each individual European country if a QE vs inflation schedule had been used following the 2008 financial crisis. This could be compared to actual policy and perhaps some inferences could be made to see if the QE vs inflation schedule would have likely improved economic performance in the Eurozone. Ideally, producing an academic paper would introduce this idea to a larger pool of economists and offer a starting point for understanding potential reforms that the ECB should consider in the future.

References

- Sly, James. 2020a. "Economic Policy During and After a Pandemic." Unpublished working paper. June.
- Sly, James. 2020b. "Monetary Policy Reforms for Europe." Unpublished policy memo. June.