

Markus' Academy Webinar with Luis Garicano  
12/15/2022  
Unedited Transcript

1

00:00:00.730 --> 00:00:01.599  
Hey? Here.

2

00:00:02.210 --> 00:00:06.029  
Bendheim Center: Okay, share screen.

3

00:00:06.090 --> 00:00:07.230  
Bendheim Center: Be mindful.

4

00:00:07.670 --> 00:00:10.640  
Luis Garicano: Oh, okay, Sorry. I'm. Sharing my screen. Well.

5

00:00:10.660 --> 00:00:11.460  
yes.

6

00:00:12.790 --> 00:00:16.319  
Luis Garicano: all right. Okay. I'll do. Stop. Sorry about that.

7

00:00:17.250 --> 00:00:18.029  
Luis Garicano: And.

8

00:00:18.380 --> 00:00:21.879  
Luis Garicano: hello, Mark! This is great to see you again.

9

00:00:24.270 --> 00:00:27.189  
Markus Brunnermeier: Let me start again because we stopped the recording.  
Okay.

10

00:00:27.360 --> 00:00:28.189  
Luis Garicano: Sorry.

11

00:00:28.280 --> 00:00:35.660  
Markus Brunnermeier: Welcome back everybody to another Webinar from  
Princeton for importing worldwide. They're very happy to have to with us  
today.

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00:00:36.400 --> 00:00:37.330  
Markus Brunnermeier: Otherwise.

13

00:00:37.460 --> 00:00:40.399

Luis Garicano: Hello, Mark, it's great to be here. Thanks for having me.

14

00:00:40.790 --> 00:00:55.399

Markus Brunnermeier: Lewis is an old friend of mine, and you know, taught at the University of Chicago, and obviously in Columbia and from Spain, and he was in the European Parliament for several years now, and he will talk about the debt and the euro.

15

00:00:55.670 --> 00:01:07.899

Markus Brunnermeier: So we will learn a lot about the the European situation at the moment. One thing you have learned about the high inflation environment, of course, is that inflation is also driven by fiscal considerations. It's not only a monetary issue.

16

00:01:07.910 --> 00:01:25.760

Markus Brunnermeier: and if I start with a few opening remarks, one thing is, you know what's in monetary fiscal to action. If you're a list of Milton Friedman, he said famously. Inflation is always an everywhere a monetary phenomenon. So the meat of the exchange, with all the quantity equation is the core of the monitorist view.

17

00:01:26.180 --> 00:01:31.240

Markus Brunnermeier: while Tom, Sergeant actually said, inflation is always an able to a fiscal phenomenon.

18

00:01:31.330 --> 00:01:37.440

Markus Brunnermeier: Of course the 2 elements to that one is the Sergeant, what is you? From this famous paper?

19

00:01:37.590 --> 00:01:56.229

Markus Brunnermeier: There is methods, with essentially real debt, and there's a money demand. There's a meeting of exchange, and the price level is determined by the quality equations still, and if the debt level is getting too high in the primary surplus in the future too small, you need some additional. You know it's income, and anticipating that package to inflation.

20

00:01:56.890 --> 00:02:15.750

Markus Brunnermeier: the other very prominent deal is the difficulty of the price level. But where the emphasis is not the immediate exchange of all of money, but the saves to our value, and the normal debt is is keys or the d plus the money supply on top of it. So it's not naturally a money demand, but essentially it's like an as surprising equation.

21

00:02:15.760 --> 00:02:25.990

Markus Brunnermeier: So we have covered this ftl equation many, many times. So there is that Us. Money, and that's the pond value. Nominal value, divided by the price level gives you the real value

22

00:02:26.260 --> 00:02:35.309

Markus Brunnermeier: of the government that outstanding, including the money that is the expected present value of all it. Time to surplus is a tax revenue minus the expenditures.

23

00:02:35.540 --> 00:02:43.719

Markus Brunnermeier: That's the addition, I have to be all equation, and of course, if I is smaller than she, or can be smaller, and she they also have potentially a bubble tone.

24

00:02:44.820 --> 00:03:01.559

Markus Brunnermeier: Now, this equation you can actually reformulate by discounting at the reservations discount rate. Then you get the same. The real value of all government get outstanding is just the expected present value of the tax revenue. My expenditures.

25

00:03:01.570 --> 00:03:04.879

Markus Brunnermeier: plus the expected present of all the service flows.

26

00:03:04.950 --> 00:03:20.239

Markus Brunnermeier: and that's, you know, corresponding to the powerless actually a service flow. So the save as it gives you a service or whatever there's a shock, it's a safe asset. You can set it to save, as it is a high value, and this overcome some financial frictions. For example, some incumbent markets for

27

00:03:20.450 --> 00:03:37.980

Markus Brunnermeier: on top of it, whenever there's a crisis or a session, the disintegrated risk people face, and probably cannot ensure themselves with social contacts. The service flow becomes more important, and it becomes more available. So at times of crisis. Actually, the service flow gains in the value

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00:03:37.990 --> 00:03:50.989

Markus Brunnermeier: that you see hold the real value of the government bonds a negative pit. So if you have an a government pond which is a safe asset that actually has a negative PET. So in times of crisis it appreciates and real value.

29

00:03:51.390 --> 00:03:56.800

Markus Brunnermeier: And that's actually a very nice feature to have for somebody who can issue these save assets.

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00:03:56.840 --> 00:04:07.000

Markus Brunnermeier: and that's an ex order of a privilege a government enjoys, if it has a safe asset status. But for this, to have to say that you have to be able to defend it.

31

00:04:07.120 --> 00:04:09.500

Markus Brunnermeier: and to

32

00:04:10.760 --> 00:04:25.019

Markus Brunnermeier: you have to have enough fiscal capacity. And so, you know, since this bubble term or the service flow to them, it corresponds to this public term, can burst so it can go away because it's it's a fragile thing to save assets, status.

33

00:04:25.030 --> 00:04:37.820

Markus Brunnermeier: or the public can also jump from the government debt to another asset. It could be some for that, or it could be some good to assets. So the public can actually jump to some other assets. But of course the Government can defend

34

00:04:37.830 --> 00:04:49.379

Markus Brunnermeier: this privilege on its own. But for this it needs fiscal capacity, and it needs at least out of equilibrium. So the beliefs have to be, it has to be careful enough. If this public was the first.

35

00:04:49.390 --> 00:05:05.199

Markus Brunnermeier: the government will step in and raise taxes or cut expenditures in order to protect the high value of the Government bonds. So that's really important to have this fiscal capacity, at least of equilibrium. So you have to have this accountability

36

00:05:05.210 --> 00:05:21.330

Markus Brunnermeier: erez agmoni If you want to maintain the safe as a privilege or an excellent and privilege, and in your government, and the only few government that will really have this great privilege, and you know that's extremely available to maintain. Now, once you go to a 150

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00:05:21.620 --> 00:05:25.910

Markus Brunnermeier: the fiscal capacity, the monetary unit is, of course, more complicated

38

00:05:25.930 --> 00:05:34.130

Markus Brunnermeier: because you, Don't, have one fiscal authority playing with the monitoring authority. Soon there will be 20 of the Croatia is joining the European

39

00:05:35.240 --> 00:05:44.579

Markus Brunnermeier: Monetary Union that we've 20 fiscal bonds, and there's also the Europeans which the Government is issuing on the European Union is issuing with the next generation bonds.

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00:05:44.710 --> 00:05:52.279

Markus Brunnermeier: So do you have 21 fiscal authorities essentially, and you have one monitor authority playing a very complicated game of chicken with each other.

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00:05:52.540 --> 00:05:55.399

Markus Brunnermeier: And there's of course, in this setup there as a contradiction.

42

00:05:55.540 --> 00:06:04.920

Markus Brunnermeier: On the one hand, we have the Nobel prize in the Mastery Treaty, and the prohibition of current financing through the Ecb.

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00:06:05.400 --> 00:06:15.749

Markus Brunnermeier: On the other hand, we want to pretend that all government bonds and choice, if assets, status, and all of them enjoy the external privilege. So even if they don't have the physical capacity to defend it.

44

00:06:15.760 --> 00:06:32.950

Markus Brunnermeier: and that's that's attention. They only chose up all the time, and of course it can be translated into a different language, like Tpi when when it's the transmission main is might be impaired, but that's the basic tension on the one hand, you would like to have the excitement privilege for all coming bonds, or 20 government bonds.

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00:06:32.960 --> 00:06:37.479

Markus Brunnermeier: but all of them have the capacity to defend it, and that's a challenge.

46

00:06:37.700 --> 00:06:54.729

Markus Brunnermeier: So with that, let me move on to the poll question. Thanks again for answering all the full questions. We always appreciate your feedback, and I think these are questions Louis put forward, and he probably will go back and will, you know, change your opinion later on? And some of them are factual questions. So

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00:06:54.990 --> 00:07:03.559

Markus Brunnermeier: so at the of course, we have the 3% rules that that it should not go beyond 3%, and the that level to Gdp should not call me on 60%.

48

00:07:03.830 --> 00:07:04.890

Markus Brunnermeier: How many

49

00:07:05.110 --> 00:07:11.849

Markus Brunnermeier: conference do you think we are satisfying our buff or not satisfying this requirement? Less than 5 out to 27.

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00:07:12.300 --> 00:07:27.940

Markus Brunnermeier: European Union is, of course, larger than you've been monitored to the Union less than half of but more than 5 or more than half, and the answers you gave us what 11% 79, and I think Louise will tell us what this

51

00:07:28.330 --> 00:07:36.099

Markus Brunnermeier: the second question is. The next generation, sovereignty, bond issue. So the European Union issued this next generation. So from some Europe on

52

00:07:36.320 --> 00:07:45.080

Markus Brunnermeier: is it an exception? One off issuance, as it was stated to the Covid is extraordinary. It is just once we do it only once, and never again.

53

00:07:45.250 --> 00:08:00.320

Markus Brunnermeier: Or is it just the beginning of more upon issuances? So we just ignore all the agreements we did before, and the people thought the audience thought 28. You stick to the law on the agreement. 72% think that just is

54

00:08:00.370 --> 00:08:03.349

Markus Brunnermeier: a piece of paper nobody cares about piece of paper.

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00:08:04.780 --> 00:08:13.360

Markus Brunnermeier: A third question is, can you raise taxes on its own? So if you have the the price level you have to have some family surplus to somebody, some taxes.

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00:08:13.380 --> 00:08:16.600

Markus Brunnermeier: can you raise taxes? Or Not

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00:08:16.640 --> 00:08:20.730

Markus Brunnermeier: and 36% said No. 64%

58

00:08:20.930 --> 00:08:31.039

Markus Brunnermeier: 36% said Yes, but 40, a 64%. Said No? Okay, that you want is, of course, you have no tax authority to raise any taxes.

59

00:08:31.490 --> 00:08:42.689

Markus Brunnermeier: The first question is, how much bigger was the Ecb's balance sheet at the end of the 20 to 21, compared to us, fed on the service balance sheet as a percentage of Gdp comparing apples to apples.

60

00:08:42.720 --> 00:08:55.489

Markus Brunnermeier: Was it roughly the same? So Ecp. And and fed, and roughly the same size of the balance sheet was the be is 25% larger, 25% larger, 75%, larger, 75% larger or twice as large.

61

00:08:55.690 --> 00:08:57.980

Markus Brunnermeier: and the

62

00:08:58.030 --> 00:09:16.490

Markus Brunnermeier: definitely the same 55%. The big mature is that it's roughly the same. What the the is doing? But 25% larger. So toe was way more pronounced and PE and all this programs was more pronounced in Europe. 2150% larger, 70 75%, larger, 6%,

63

00:09:16.500 --> 00:09:18.569

Markus Brunnermeier: and twice as large, only 2%.

64

00:09:18.710 --> 00:09:25.740

Markus Brunnermeier: So I would not give it away. I need it. To do is to really improve, but I think it's you will see it was way the outer in Europe.

65

00:09:26.580 --> 00:09:41.669

Markus Brunnermeier: Finally, what is it to say spread between the ten-year EU, that so that your pond compared to the German bond either neglectable? Or is it just the between 65 75 basis points and the answer for that was what you gave us?

66

00:09:41.680 --> 00:09:56.820

Markus Brunnermeier: It's it's tiny it's. A 38% thought this way, and 6 or 2% thought. It's about 65, 70 basis points. With this I pass on the

floor. The digital mic to Louise, and we're looking forward to his talk on the depth and the euro.

67

00:09:58.260 --> 00:10:08.880

Luis Garicano: thanks very much, Mar. This is really a privilege and a pleasure to be here with. With this audience I do have your introduction reminding people of something that

68

00:10:09.230 --> 00:10:14.089

Luis Garicano: we, as a Communist shouldn't be reminded, but I think we forgot, which is that invasion

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00:10:14.340 --> 00:10:18.080

Luis Garicano: and that are closely linked.

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00:10:18.610 --> 00:10:30.859

Luis Garicano: And I want to use 2 facts to motivate this, to talk or to start it so one from today. So it's. It's always nice to have that something happen in the same. It's the same day that that you're talking cuisine. I got it just announced

71

00:10:31.040 --> 00:10:34.590

Luis Garicano: that the Qt. Decision is going to start

72

00:10:34.610 --> 00:10:51.950

Luis Garicano: reducing the balance sheet or the the the board that's decided to start using the the size of the of the balance sheet of the European Central Bank at the rate of 15 billion a month is starting in March. It will only take 333 months to eliminate the balance sheet. It's 27 years.

73

00:10:51.980 --> 00:11:01.110

Luis Garicano: I hope Microsoft me at around to see the end of this of this Qt. Exercise. Obviously that's assume there's no crisis, no needs for New qe, etc.,

74

00:11:01.350 --> 00:11:19.750

Luis Garicano: the balance sheet of the Cp. Man. It is true that it's similar size in Europe or to us at some point, has been the Us. On Gdp is much lower. and it's not the Europe Gdp, but the eurozone Gdp 67% of the eurozone gdp which is almost twice as much. 75% more

75

00:11:19.770 --> 00:11:22.899

Luis Garicano: to your surprise to the large surprise, with many of you



76

00:11:23.190 --> 00:11:32.729

Luis Garicano: than the one the Qe. In the United States. That's my first fact. Qt. Starts start slowly.

77

00:11:32.820 --> 00:11:45.379

Luis Garicano: it was conceived. I say Qe. Was conceived as a monetary operation, but today, with the end of qe and stuff Qt. Nothing about this having an impact on inflation has been argued by the

78

00:11:45.790 --> 00:12:04.499

Luis Garicano: the second factor, one I want to raise, which I also asked you about in the poll has to do with the spread of the you, that of the with the gym a 10 year test. And this is a recent piece I I I put up with with Giovanni Ponfanti for Columbia, and if you look at the they've been to all the European issues which have been issued for a long time

79

00:12:04.510 --> 00:12:14.489

Luis Garicano: Erez agmoni are all these gray lines? They have been close to the Netherlands so really, and risk Street territory, and they've been getting after Qe. Was announced. They've been getting pretty close 250.

80

00:12:14.780 --> 00:12:33.360

Luis Garicano: Actually the 2 Spanish. That, and and far from risk-free territory, you look or include the EU bonds, which are a recent more recent one. That's why I use the longer issuers to compare. You see that the EU bonds are also in that kind of 60, 70 75 basis points territory which is kind of not

81

00:12:33.750 --> 00:12:49.239

Luis Garicano: something very happy that you do. We want to have the some of these depth is joined in several guarantee. We'll discuss that in a second. you will want it to be a safe asset, and to enjoy all that exorbitant privilege or bubble status that Marcus was 10 years apart.

82

00:12:49.860 --> 00:13:04.979

Luis Garicano: So let me start from the start of this to motivate. In fact, we did master 3. T many of you know it. But just let me remind you that the domestic treaty were designed with a very, very limited fiscal capacity in in mind. Countries were supposed to borrow moderately to repay the tips

83

00:13:04.990 --> 00:13:13.740

Luis Garicano: and to not ask anybody else for fiscal transfer. So they agreed to depth in deficit limits. They agreed, in fact, to it a triple lock it people look

84

00:13:13.980 --> 00:13:15.520

Luis Garicano: that involves

85

00:13:15.660 --> 00:13:21.060

Luis Garicano: for forbidden monetary financing in the article 123 limiting deficits, index

86

00:13:21.070 --> 00:13:36.210

Luis Garicano: and no way out. The monetary financing provision. You all know, it's basically forbidden for a for the Ecb. Of National Central banks to purchase directly that I don't think the treaty writers thought that the main tool of monetary policy will ever be anything other than interest rates.

87

00:13:36.220 --> 00:13:54.389

Luis Garicano: But in any case the provision has been considered satisfied as long as it's not purchased directly. You see the word directly here which has been the one that has allowed for for Qe. second. There are deficits in the limits. There's a limit to 3% of the Gdp and the limit at 60% and force we find.

88

00:13:54.400 --> 00:14:12.079

Luis Garicano: and this that we can both pack. In fact, no fine stuff ever been. Never. That was a question that I was going to to ask you as well. The Union also has for a provision of of, of of engaging intuition. Debt with a balance budget rule that says there are only expenses from the budget shopping balance, and that's why

89

00:14:12.090 --> 00:14:22.870

Luis Garicano: most operations, I think, very recently have been of balance sheet operations with the special purpose Vehicles set up in, like the European stability mechanism was set up in that way.

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00:14:23.570 --> 00:14:25.410

Luis Garicano: the

91

00:14:26.700 --> 00:14:28.510

Luis Garicano: search

92

00:14:28.610 --> 00:14:48.019

Luis Garicano: lock. This triple lock is the Nobel prize that doesn't allow a Member State to bail out somebody else in an element they didn't. The reason for this is to avoid the pressure that could result in people expecting the to receive this help. so there is no will be. How close.

93

00:14:48.630 --> 00:14:53.880

Luis Garicano: What is interesting is that the treaty is very sharp on what should happen. Everybody should behave very nicely.

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00:14:54.300 --> 00:14:59.699

Luis Garicano: but it's not at all clear on what happens if people don't

95

00:14:59.920 --> 00:15:03.629

Luis Garicano: can, by bad behavior, but by luck into a crisis

96

00:15:04.160 --> 00:15:22.210

Luis Garicano: there is no imf like institution to provide help in the treaty, so you will not get some support if that happens. But there's also okay. I'm not going to support. I'm also in debt. What do I do? Well, you kind of that do, or they treat it doesn't. Talk about that restructuring me either. So there is no clear

97

00:15:22.240 --> 00:15:35.040

Luis Garicano: kind of way out of the situation of the poor or excessive debt in this treat it's the only thing that is not, and Micro and me and many of us have worked a lot on this during the year. Prices was banking union. There was no

98

00:15:35.420 --> 00:15:48.740

Luis Garicano: joint banking regulation or joint supervision, or the cost of insurance and and and and apparently because okay, host Regulators like to control banks like to have the political power to ring fence, that equity to direct

99

00:15:48.900 --> 00:16:01.580

Luis Garicano: investment by the banks, and and as a result there was. Banks have been very national in in many cases, and and even more after the euro crisis, and there has been little between country with sharing.

100

00:16:01.590 --> 00:16:10.730

Luis Garicano: and also there are no euro-wide tools in the treaty for banking crisis. The emergency liquidity, assistance, is a question of the National Central banks, you would wonder.

101

00:16:10.810 --> 00:16:15.079

Luis Garicano: Do we have National Central Bank? Yes, we have, and they pay a big role, as you will see

102

00:16:15.140 --> 00:16:16.280

in my phones.

103

00:16:16.640 --> 00:16:34.050

Luis Garicano: So this construction has like a kind of very good intentions, but not a very clear support for those good intentions. It's kind of something that we do in Europe. Sometimes, by design you build the halfway house, and you expect them. When the rain comes somebody will come and build the roof. It's not necessarily the best way

104

00:16:34.060 --> 00:16:49.799

Luis Garicano: to to to get to a good place, but at least you at us. That's the idea. But it was tested in the Europe crisis, and i'm not going to tell you what the euro crisis, you know micros and Rose good book about it, and and and many of. You know a lot about it. I just want to remind you

105

00:16:49.900 --> 00:17:09.220

Luis Garicano: that there was this, this, particularly this: these 4 countries Greece, Ireland, Portugal, and and Spain, which got into very large net debt positions not just the government that the country that did some of the current account deficits over all these years, and and they basically couldn't finance themselves at some point in

106

00:17:09.230 --> 00:17:28.059

Luis Garicano: I just want to show you one example of what that was here is that our Irish case 2 banks. And why is the National white? This from a very nice paper by Calvin that I recommend you to be, if you care about the Irish crisis, which is beautiful deposits in the securities where the main liability in those those balance sheets of these banks

107

00:17:28.069 --> 00:17:30.259

Luis Garicano: basically people take all the money away.

108

00:17:30.690 --> 00:17:50.629

Luis Garicano: and you see there is a policy run here, and it gets replaced by your system. Borrowings which are borrowing with collateral and Ela emerging equity assistance which is without collateral. This is really problematic, because it is the Ecb. On the who. So after this, obviously a rescue and a very complicated situation. It wasn't well managed. it was.

109

00:17:50.810 --> 00:17:54.129

Luis Garicano: There are many, many problems with this, but let me just leave it at this.

110

00:17:54.370 --> 00:17:58.379

Luis Garicano: So in some countries like Ireland and Spain. What happened with the banks?

111

00:17:58.510 --> 00:18:08.930

Luis Garicano: A private that contaminated public debt to Banks go past on this, this, this crisis to the sovereign's. Trust me, it this price to the sovereign. But solvency, the lack of service. Your banks

112

00:18:09.100 --> 00:18:11.030

Luis Garicano: means the sovereigns were.

113

00:18:11.170 --> 00:18:17.720

Luis Garicano: There was no the not the policy insurance, the European level, no rescue to the European level the sovereigns themselves response for their own banks, the

114

00:18:18.360 --> 00:18:28.809

Luis Garicano: and in other countries like recent port, what was the sovereign which which passed on this crisis to the banks, and the crisis left to to repeated moments of of panic

115

00:18:28.820 --> 00:18:42.080

Luis Garicano: with interest rates, red skyrocketing. Here you see Greece in Brown also Italy is in brown, but but other countries before like here, is Portugal in yellow. all of these are Ireland. All of these other countries

116

00:18:42.090 --> 00:18:56.149

Luis Garicano: in crisis. Spain is in blue with with with Italy also in in brown and and and and these are kind of the countries that were the kind of in the gold mind and that he was felt that the Guru was under threat.

117

00:18:56.230 --> 00:18:57.440

Luis Garicano: At that point

118

00:18:57.590 --> 00:19:02.350

Luis Garicano: the Cps decided to survive and to put that your kind of asserted itself.

119

00:19:02.560 --> 00:19:06.239

Luis Garicano: and there were rescues that didn't really do the job

120

00:19:06.970 --> 00:19:16.340

Luis Garicano: even though over the midterm I think they have been successful, but the crisis was considered to have finished when dragging basically my driving as president of the

121

00:19:16.530 --> 00:19:30.159

Luis Garicano: said, Look, we are going to the Us. One to survive, forget about any possibility of anybody in the world. We're going to do our job, and that's going to be enough, more or less. That is his message. This is well well known. What is less well known

122

00:19:30.360 --> 00:19:31.360

Luis Garicano: is that

123

00:19:31.500 --> 00:19:32.220

Luis Garicano: they

124

00:19:32.380 --> 00:19:35.320

Luis Garicano: kind of program that directly put in place

125

00:19:35.490 --> 00:19:50.989

Luis Garicano: to back up his promise which is called the how to Write Monetary transactions had 2 elements which are going to be crucial for the story that i'm going to want to tell you which is the story of of the current situation. We have fiscal backing from the

126

00:19:51.070 --> 00:20:07.439

Luis Garicano: Union of States. there was something called the European Stability mechanism, which was a program that boot back up the the the debt of this country because they see we want to withdraw. That was the fiscal backing behind, and there was conditionality there was that would ensure that the measures were

127

00:20:07.490 --> 00:20:15.099

Luis Garicano: temporary. There was a troika that would supervise that the banks that the State would do what is necessary in order to get out of this situation.

128

00:20:15.320 --> 00:20:20.340

Luis Garicano: I I just want to show you what driving thought about this, because I think it's very illuminating, is it?

129

00:20:20.750 --> 00:20:35.080

Luis Garicano: And it's playing all these measures. It's important to provide the the conditionality it's important, providing this to be with the adequate assurance that Interventions support for that on prices do

not retake into financial subsidies for a sustainable national point. So he thought

130

00:20:35.220 --> 00:20:45.230

Luis Garicano: Erez agmoni conditionality in the intervention of the CD. Was essential to avoid the subsidies, these becoming subsidies for national politics. For this to be real monetary policy, one.

131

00:20:45.250 --> 00:20:54.259

Luis Garicano: And you can agree with this, with this decision or not, I think most people think he did very well. The Esm was set up as a as a fiscal tve of this

132

00:20:54.290 --> 00:21:07.579

Luis Garicano: we've 700 billion, and subscribed in a capital but 500 billion in in maximum lending capacity in order to ensure that it had a sufficient overcoat authorization and try to be able to equal a rating

133

00:21:08.970 --> 00:21:13.879

Luis Garicano: with this fiscal mechanism. This conditionality, basically

134

00:21:13.900 --> 00:21:16.819

Luis Garicano: our view is that my drug you avoided the breakout

135

00:21:17.010 --> 00:21:27.699

Luis Garicano: of the euro without creating inflation and without risking the in sustainable public finances. This is because of this 2 elements that I was mentioned, conditional in the

136

00:21:27.930 --> 00:21:29.420

Luis Garicano: then we get to 2,050,

137

00:21:29.660 --> 00:21:39.150

Luis Garicano: and there is a risk of deflation. And you know that all the central banks we're doing qualitative easing. We're in this overbound, and and Marcos has a multiple seminars about this.

138

00:21:39.570 --> 00:21:52.910

Luis Garicano: The question was, what could the Ecb do? And the reason this is an issue is because, as you recall, I think, 123 says, you cannot do monetary financing. How are you going to buy those numbers? And the Ecb answer is, Look

139

00:21:53.150 --> 00:21:54.640

Luis Garicano: to the extent

140

00:21:54.880 --> 00:21:55.760

Luis Garicano: that

141

00:21:56.220 --> 00:22:09.599

Luis Garicano: we have 2 limits on the way we we we operate with that. This is not monetized in the 2 limits are. We're not going to buy more than 23% of an issue, so that it's traded in the market, and we are going to buy.

142

00:22:10.230 --> 00:22:21.709

Luis Garicano: And the sovereign bonds in proportion to the capital key. So it's going to be automatic. We'll buy all Member States in similar proportions to how big they are. If you allow me to say it in this way

143

00:22:21.730 --> 00:22:35.700

Luis Garicano: that way we're not favoring one state. We're not financing those. Those were the 2 conditions that ensure that this would be Qe. And this was basically at the start to 5 Declaration eventually become something to try to get inflation between from 1.5

144

00:22:35.930 --> 00:22:40.369

Luis Garicano: to 2. So it's like, okay. We have forecast of of 1.5

145

00:22:40.390 --> 00:22:45.969

Luis Garicano: we want to try to move it up to 2. We're going to do 5 trillion. Well, eventually 5 trillion with.

146

00:22:46.000 --> 00:22:49.849

Luis Garicano: But i'm going to fast because this is 3 pandemic.

147

00:22:50.160 --> 00:22:56.289

Luis Garicano: this is what in the left you have. What was both of banks on the right of sovereigns. And you see that

148

00:22:56.380 --> 00:23:15.140

Luis Garicano: that T Lt. Arose. The the financing provided to Banks was around 600 billion eventually before the pandemic and the purchases of assets of the States, including cover bonds as a pack securities and public sector. Private bonds is around 3 trillion. Now

149

00:23:15.610 --> 00:23:25.550



Luis Garicano: that's qe. It's a different animal in a monetary union. You have as Microsoft, 19, almost 20, right now monetary authorities in in a very short time.

150

00:23:25.750 --> 00:23:32.359

Luis Garicano: and it was always kind of problematic. It was clear that we had to get out, etc. What happens? What happens that we get

151

00:23:32.410 --> 00:23:38.260

Luis Garicano: another one in a century crisis, our second one century crisis in 10 years the pandemic

152

00:23:38.520 --> 00:23:53.029

Luis Garicano: there's a monitor response that goes through something called the pandemic emergency purchase program, which basically is a program that allows the bank to buy 750 billion. And one crucial thing changes

153

00:23:53.090 --> 00:24:00.840

Luis Garicano: flexibility of purchases across over time over asset classes of their jurisdictions. The bank, and now they see we can now purchase, also

154

00:24:00.940 --> 00:24:07.530

Luis Garicano: protect, and you can also buy in proportions that go away from the capital

155

00:24:07.930 --> 00:24:25.009

Luis Garicano: because it's a pandemic, because the crisis everybody kind of understands. And here you see how the balance sheet dramatically expands on the left. You have banks the Tlt ros the targeted long-term refinancing operations where the bank puts a

156

00:24:25.020 --> 00:24:38.080

Luis Garicano: targets to the banks of how many loans they have and give them. So you guys money, you think, and on the right to have sovereign purchases. The orange is that P. E. P. P. P. Pandemic emergency pro purchase program, and you see

157

00:24:38.110 --> 00:24:48.189

Luis Garicano: that this is 5 trillion and the other one is almost 2 and a half trillion. These are these are very large. These are very large programs that, as you will see, are going to be

158

00:24:48.330 --> 00:24:49.090

are going to be

159

00:24:49.780 --> 00:24:53.429

Luis Garicano: hard to unwind, and that's a big part of our discussion.

160

00:24:53.890 --> 00:24:59.370

Luis Garicano: That was the monetary response to the pandemic. There was also a fiscal response which was also unprecedented

161

00:24:59.460 --> 00:25:06.259

Luis Garicano: from the Parliament. I was at the time of Parliamentarian. I was one of the people writing this resolution. In fact, this one I I mostly wrote.

162

00:25:06.350 --> 00:25:10.970

Luis Garicano: This was from my group, and then from the Parliament in which we said, Look, we need to

163

00:25:11.030 --> 00:25:24.689

Luis Garicano: to have a program of joint European debt to finance the reconstruction, and it's not just. I mean, in a way, you don't want to do this one entirely. This a fiscal problem. It's a fiscal solution, and we need to issue some bonds. It took a couple of months for this to be

164

00:25:24.760 --> 00:25:27.000

Luis Garicano: happening, but eventually

165

00:25:27.030 --> 00:25:32.689

Luis Garicano: we issued European debt. The first issue was to find unsure.

166

00:25:33.110 --> 00:25:49.479

Luis Garicano: It sure was done. It's still in a kind of old fashioned way. It's back to bank lending it's an important concept in European lending, which is, I give you a loan I I borrow in the market to give you a long, so the only difference is to give the state alone. So in this case this vehicle.

167

00:25:49.540 --> 00:25:53.129

Luis Garicano: that's back to back. Lending

168

00:25:53.390 --> 00:25:56.859

Luis Garicano: part of it is under the EU budget is 9

169

00:25:57.850 --> 00:26:05.109

Luis Garicano: a 1 billion feet under the limit fixed by the member stage of how much the European Union can

170

00:26:05.270 --> 00:26:13.500

Luis Garicano: the spend. This is the spending Europe limit of the European Union, which is fixed by unanimity by the Member States every 7 years, 250,

171

00:26:13.650 --> 00:26:22.379

Luis Garicano: and the rest is that we voluntarily joined for the Member States in the way that it has been done in the past. Nothing very, very exceptional.

172

00:26:22.710 --> 00:26:35.159

Luis Garicano: although it is European Union that what is really exceptional is this second problem, the next generation program, which is just see towards already by now. This is this is data of today, basically.

173

00:26:35.270 --> 00:26:37.530

Luis Garicano: but it's going to get all the way to one trillion.

174

00:26:37.560 --> 00:26:39.859

Luis Garicano: because it was 2,018,

175

00:26:41.110 --> 00:26:45.010

Luis Garicano: 750 billion at 2 and 2,018 more. Us.

176

00:26:45.090 --> 00:26:54.920

Luis Garicano: This is a different, completely different animal. The next generation is the first time the European Union decides to issue that together

177

00:26:55.060 --> 00:27:02.609

Luis Garicano: with the backing of the EU budget and not the Member States individual guarantees, and that it decides to

178

00:27:02.660 --> 00:27:05.120

Luis Garicano: that. This is going to finance spanning.

179

00:27:05.200 --> 00:27:24.560

Luis Garicano: Okay, I can talk if Michael pushes me later, and then we double the legal engineering that allows something that, says the budget detect the revenue and the and the expenditure has to be in balance to, we actually issue that. But the fact is that those should to finance expanding by Member States 390 billion is actually to find that

180

00:27:24.770 --> 00:27:29.179

Luis Garicano: expanding. So it's a big step in many ways a positive step by Europe.

181

00:27:29.230 --> 00:27:32.119

Luis Garicano: but as I will show you, it's a bit

182

00:27:32.470 --> 00:27:34.230

Luis Garicano: in tax factory, or more than

183

00:27:34.360 --> 00:27:35.100

Luis Garicano: look.

184

00:27:35.190 --> 00:27:45.670

Luis Garicano: Your the European Union is not financed, as many of you would have imagined, and, in fact, in the in the poll. Many of you said through taxes that it, Davis, it is not allowed

185

00:27:45.780 --> 00:27:58.140

Luis Garicano: levy taxes. This is a one of the incomplete aspects of the construction. The Parliament, whatever sitting, and the and the Member States together decide on the expanding, and the Parliament has a lot of say.

186

00:27:58.230 --> 00:28:07.340

Luis Garicano: but it doesn't have any say on the revenue. The Member States huggle over it like the United Nations budget. Kind of thing. You have to pass the hat and get people to make amendments.

187

00:28:07.360 --> 00:28:09.510

Luis Garicano: Member State contributions directly.

188

00:28:09.530 --> 00:28:21.099

Luis Garicano: Tariff and custom duties flow directly to the European Union, but they get me it out with the members. They contribution and value added tax base contribution. So a lot of it is basically passing the hand around in order to

189

00:28:21.350 --> 00:28:42.840

Markus Brunnermeier: Do you think that would be the Border Trust and text for Co. 2 aspects a picture of tax? Do you think it has to come because you hope it's a revenue to back its own debt. It will be forced to do this. Taxes, not for environmental reasons, but just to back. It is correct right? We talked about in in, in, in the legislation that authorize this borrowing. The Parliament demanded

190

00:28:42.960 --> 00:28:47.920

Luis Garicano: that a set of 5 or 6, 7 different types of taxes would flow

191

00:28:47.930 --> 00:29:11.539

Luis Garicano: to pay some like \$1518,000,000,000 interest a year, and and those would be the digital tax, which now is not really going to exist, because we have the 15% minimum corporate tax rate to be with the Oct. There will be the plastics that did go into the you by the the carbon border adjustment mechanism, part of thets. The problem is, we saw it with ats every time there's a new social revenue. The Member States, who are always

192

00:29:11.550 --> 00:29:29.099

Luis Garicano: also very troubled, try to get this this revenue for themselves. So every time there was kind of big words about this money going to the European Union, and in practice it's really hard to get it. I really hope, Microsoft, My my answer is, I really hope so. But there's not a legal commitment. And that's the problem.

193

00:29:29.340 --> 00:29:48.960

Luis Garicano: The problem is that you need an international treaty for that, or you can trust by agreement by the Government, you could do it by agreement. You would have to pass a new kind of quote International Treaty, which would be a known resource decision, and or the the original decision gets ready 5 by 27 Member States, and he was the only sort of decision which allowed

194

00:29:49.010 --> 00:29:54.199

Luis Garicano: so basically the way Europe was allowed to borrow is to increase that budget ceiling

195

00:29:54.290 --> 00:30:12.489

Luis Garicano: to fit inside the ceiling the yearly borrow of the European Union every year. But that doesn't tell you how it gets repaid, because the budget only lasts 7 years. So in the next budget, when it comes 7 years, then people will have to say, oh, yeah, we have this obligation. But as a European Union, let's see how we have all.

196

00:30:12.770 --> 00:30:26.539

Luis Garicano: Are we going to pay more into the budget? Are we going to give that some new tax into the budget? Or are we going to decrease the commonary brochure policy or the structural policies? The point that takes this a little bit and makes us makes me a bit amusing

197

00:30:26.790 --> 00:30:29.049

Luis Garicano: is that this is nowhere

198

00:30:29.270 --> 00:30:38.860

Luis Garicano: actually decided. They will be hugging in a few years, and If there is no new resources, somebody will have to either pay more or cut the budget of things that are politically very sensitive.

199

00:30:38.990 --> 00:30:43.429

Luis Garicano: This is negotiated every 7 years, and in particularly one country where to leave

200

00:30:43.890 --> 00:30:45.350

Luis Garicano: there would be

201

00:30:46.020 --> 00:30:51.789

Luis Garicano: I I don't know a lot of temptation, for by that country to renege on this European Union there, so it's not the same

202

00:30:51.830 --> 00:30:57.169

Luis Garicano: as a sovereign state, you know. Marcus is like, you know this. I don't know who wrote this. Somebody

203

00:30:57.490 --> 00:31:02.870

Luis Garicano: use as some European, a Us. President used to say. And when I want to call to Europe, who do I have to dial?

204

00:31:03.180 --> 00:31:11.489

Luis Garicano: And this is a bit the same idea when I want to renegotiate European debt over, and I have to do something about it that i'm an investor who do. I call

205

00:31:11.540 --> 00:31:25.769

Luis Garicano: well the European Commission, but it doesn't have the right to issue in taxes. So the 27 mistakes and this is what makes this? Not quite the Hamiltonian moment we all so for the market beliefs there will be some resolution. Otherwise. You know by the that

206

00:31:25.910 --> 00:31:33.169

Luis Garicano: you're right, the European market. The the market believes that look.

207

00:31:33.980 --> 00:31:51.800

Luis Garicano: The countries stand behind the European Union. The countries are serious over the European Union. There is a lot of people who believe that I mean. So. So the the case where it would be problematic would be if one country works out from this money. But politically that is so risky. And it has happened with Brexit.

208

00:31:51.810 --> 00:31:57.109

Luis Garicano: It's it's just been seen to be crazy. So I think most of us believe, of course.

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00:31:57.290 --> 00:32:03.620

Luis Garicano: by far, but this is obviously as good, so that the problem is, it's probably as good as some intent. But

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00:32:03.670 --> 00:32:05.010

Luis Garicano: the legal

211

00:32:05.600 --> 00:32:11.009

Luis Garicano: aspects are are, of course, much more tricky. and that's that's part of what

212

00:32:11.020 --> 00:32:26.340

Luis Garicano: that's what it the part of what makes for probably makes it makes it a risky, I would say, because it's this very long term that you should at a very low interest rate. No, it's been, I mean, I think it should have been issued at very, very long term, and very fast to get

213

00:32:26.350 --> 00:32:45.030

Luis Garicano: to get rid of it. I I taking a bunch of the of the window. In fact, I I propose at the time there was a perpetual securities, but it didn't work, but I would say, but the the the the general general budget has preferred what the Commission was preferred to issue at all maturity to try to build the yield curve

214

00:32:45.040 --> 00:32:52.140

Luis Garicano: to try. I mean, the thinking is trying to see this as a start, and that's why my question to the to the audience.

215

00:32:52.220 --> 00:33:04.289

Luis Garicano: trying to see it as a start of a euro-one market, with with with that at all maturity with the whole deal corve, etc. The problem is, equity is not so big.

216

00:33:04.330 --> 00:33:12.390

Luis Garicano: and at long as a short maturity. This is not really. I mean, this is not really very liquid at the moment. That's the truth.

217

00:33:12.940 --> 00:33:15.180

Luis Garicano: I think the European Central Bank has been buying

218

00:33:15.490 --> 00:33:19.459

Luis Garicano: probably a large part. From what I told you before I was. Qe.

219

00:33:19.790 --> 00:33:27.179

Luis Garicano: So how do we? This is where we get to the crux of our presentation and our discussion. How do we exit. Look

220

00:33:27.870 --> 00:33:40.120

Luis Garicano: this: the the basic problem we are facing is that we invented something which was Qe. Which was clearly monetary. And if you see all the documents from the central bank at the time it was about monetary policy. There's no question about it.

221

00:33:40.170 --> 00:33:48.250

Luis Garicano: but in some way, as transmitted in the sort of quasi fiscal policy. Look at the central bank holdings of government bonds as percent of Gdps

222

00:33:48.360 --> 00:33:49.700

Luis Garicano: post pandemic.

223

00:33:49.760 --> 00:33:58.570

Luis Garicano: Basically in many countries the entirety of the pandemic issuance has been bought by the Ecb, you see, increases of 20

224

00:33:58.650 --> 00:34:10.540

Luis Garicano: points of Gdp in in the course of a year or a couple of years of what the central bank is holding of governments. Look at 2 particular countries that are interesting, which are Italy and in Spain.

225

00:34:11.280 --> 00:34:22.389



Luis Garicano: erez agmoni. First look at the increase in the debt of these countries Spain was very responsible in in in the run. Of course it has a bubble in the run out of the crisis it has 30% debt to Gdp ratio, 150.

226

00:34:22.409 --> 00:34:27.649

Luis Garicano: It's it's gone up to 120. That's the right-hand side scale in the black line.

227

00:34:27.949 --> 00:34:32.729

Luis Garicano: the holdings who's holding this debt, and who has increased their holdings? This green.

228

00:34:33.000 --> 00:34:36.069

Luis Garicano: It's the Spanish Central bank 40 points of Gdp.

229

00:34:36.370 --> 00:34:37.589

Luis Garicano: This Blue

230

00:34:37.840 --> 00:34:52.239

Luis Garicano: is the domestic banking sector, not much smaller than what we we're talking about. You You call it the diabolic loop. All the people call it to group not much smaller in terms of how exposed the domestic banking sector is, is supposed to this.

231

00:34:52.250 --> 00:35:01.459

Luis Garicano: Then there is a domestic, not by people who are basically getting out the foreign official sector, the foreign banks and the for in no months look at Italy

232

00:35:01.640 --> 00:35:05.199

Luis Garicano: between the Italian Central Bank, 40 points as well.

233

00:35:05.280 --> 00:35:10.019

Luis Garicano: and the domestic marketing sector. That's 85, 90%.

234

00:35:10.480 --> 00:35:13.250

Luis Garicano: That. So basically, what we have is

235

00:35:13.280 --> 00:35:19.440

Luis Garicano: basically all of these extra issuance from in the last few years has been only

236

00:35:19.650 --> 00:35:24.910

Luis Garicano: bought by the national, the green, expanding green area, the national central banks, the

237

00:35:24.960 --> 00:35:27.369

Luis Garicano: and now we have the third

238

00:35:27.400 --> 00:35:37.410

Luis Garicano: Erez agmoni. Once in a generation crisis in 10 years, which is the energy crisis in the Ukraine war. And then all the disaster comes. The Russian invasion, etc. So what you have is again 150,

239

00:35:37.460 --> 00:35:39.709

Luis Garicano: a big increase in debt.

240

00:35:39.800 --> 00:35:50.019

Luis Garicano: That's again Here, you see, for example, Germany, 7 points of Gdp: just for the energy. Okay, this is just Google's calculation of how much are they? Energy measures?

241

00:35:50.110 --> 00:35:53.690

Luis Garicano: These are. These are very, very significant.

242

00:35:53.820 --> 00:35:54.970

Luis Garicano: again.

243

00:35:55.260 --> 00:35:57.169

Luis Garicano: 270 million just in there.

244

00:35:58.470 --> 00:36:11.220

Luis Garicano: and of course we all know the General Government that is, is very high. And over the massive threshold the key, the answer to the question was 14 out of 27 countries were not fulfilling the the the fiscal rules

245

00:36:11.440 --> 00:36:29.219

Luis Garicano: can we have something that we know all where I just want to put it on the table. Okay, which is the non-funded pension liabilities. This is I just wanted to show you the basic calculation of the net accrue pension entitlements by euros, that the net present value of the difference between what is committed and what is actually being paid.

246

00:36:29.680 --> 00:36:41.239

Luis Garicano: and these are amounts on the order of 300 400 of Gdp. By my calculation. I hope it's so. It's all correct it. Italy 400.

247

00:36:41.620 --> 00:36:51.539

Luis Garicano: So we have countries that have a demographic problem that have a lot of debt and a country in a in a, in a European Central bank that that is holding a lot of it.

248

00:36:51.810 --> 00:36:56.229

Luis Garicano: My fear is that the current situation doesn't provide the right

249

00:36:56.290 --> 00:36:57.549

Luis Garicano: incentives

250

00:36:58.040 --> 00:37:00.679

Luis Garicano: to bring this fiscal position under control.

251

00:37:00.920 --> 00:37:03.010

Luis Garicano: and and the reason is this.

252

00:37:03.300 --> 00:37:04.859

Luis Garicano: First look at the easy.

253

00:37:04.940 --> 00:37:17.269

Luis Garicano: The European Central Bank is worried about starting to reverse monetary policy and having what it calls disturbances and monetary transmission mechanism. It worries about people.

254

00:37:17.340 --> 00:37:29.969

Luis Garicano: you go up one in in your interest rate and your basic interest rate, and and the debt for Italy goes up by 3 or by 4, because people start to panic about the other countries. So they're being Central Bank says, No, we're not going to allow that

255

00:37:30.320 --> 00:37:32.229

Luis Garicano: we're going to. First of all.

256

00:37:32.360 --> 00:37:34.450

Luis Garicano: we continue for getting about

257

00:37:34.570 --> 00:37:37.529

Luis Garicano: buying according to the capital key. So we're going to kind of

258

00:37:37.700 --> 00:37:48.470

Luis Garicano: sell Northern debt by, so that, but also there is real trouble. We're going to introduce a mechanism which is going to be called the Transmission Protection instrument.

259

00:37:49.420 --> 00:37:54.340

Luis Garicano: which we will use to to to

260

00:37:54.590 --> 00:38:02.610

Luis Garicano: counter. This word unwarranted those that's a huge amount of work. Okay, and for all all of those view economies watching.

261

00:38:02.800 --> 00:38:09.309

Luis Garicano: you know how complicated a word is unwarranted, this orderly market dynamics that

262

00:38:09.340 --> 00:38:11.870

Luis Garicano: in a

263

00:38:12.050 --> 00:38:16.809

Luis Garicano: in this case the Ecb will get to the site when the market dynamics are warranted.

264

00:38:16.900 --> 00:38:20.789

Luis Garicano: If they start suddenly thinking that it's warranted and they stop intervening.

265

00:38:21.450 --> 00:38:30.799

Luis Garicano: But the problem is, can they release talking to me? So this allows them to buy the type of home country you'll sell. This is like this is like right. No, it's not like.

266

00:38:31.100 --> 00:38:33.919

Luis Garicano: and that's why I was very precise about what I did

267

00:38:34.540 --> 00:38:38.260

Luis Garicano: is very far from the street.

268

00:38:38.830 --> 00:38:41.149

Luis Garicano: The conditions to activate these are, for

269

00:38:41.480 --> 00:38:44.800

Luis Garicano: you have to comply with a new fiscal framework, which right now suspended to 20,

270

00:38:44.840 --> 00:38:54.839

Luis Garicano: so this is not relevant. There has to be a sense of several micro-coloning environments so this is decided by European Commission, and it's it's not a part fast tool.

271

00:38:54.930 --> 00:39:00.840

Luis Garicano: and you have to comply with the European semester and the recovery plans. I'll show you in a second what that means, but it's not

272

00:39:01.140 --> 00:39:05.350

Luis Garicano: straight at all. So 1, 2, and 4 are not straight. So basically it's going to be.

273

00:39:05.420 --> 00:39:13.990

Luis Garicano: He's the that sustain, and he's the in commission the same in the Imf, and they see the same. And if it is, we interview, that's the that's the world.

274

00:39:14.430 --> 00:39:18.459

Luis Garicano: Now I just wanted to tell you of the institution. I have to say, not only one.

275

00:39:18.660 --> 00:39:23.759

Luis Garicano: no several institutions, including the You commission several. I think there's a lot of

276

00:39:23.960 --> 00:39:25.029

Luis Garicano: flexibility here.

277

00:39:25.360 --> 00:39:29.969

Luis Garicano: but I want to tell you. Argentina's death has been declared this year.

278

00:39:30.550 --> 00:39:32.680

Luis Garicano: and it was the classic table 2 years ago.

279

00:39:32.850 --> 00:39:39.079

Luis Garicano: I mean, what do you need to do to declare that sustainable to have a good assumption, all g growth rate.

280

00:39:39.130 --> 00:39:49.350

Luis Garicano: What do we think is G. That tells us? What do we think? Sustainability? It is, I think a very soft condition in a moment of crisis will be fudge like it has always been

281

00:39:49.670 --> 00:39:52.139

Luis Garicano: so. It's different from on team 2 ways.

282

00:39:52.500 --> 00:39:58.759

Luis Garicano: There is no fiscal backstop from the States you have to go to the same. Go into a program.

283

00:39:58.840 --> 00:40:01.570

Luis Garicano: have some conditionality, etc., etc.

284

00:40:02.050 --> 00:40:03.330

Luis Garicano: This means

285

00:40:03.900 --> 00:40:05.700

Luis Garicano: that without a physical backstop

286

00:40:05.870 --> 00:40:15.969

Luis Garicano: Is the Ecb really credible? Remember driving could say, oh, you know I don't think i'm buying you that. But I don't think I'm going to continue doing it, because I don't think you're doing your job being responsible.

287

00:40:16.670 --> 00:40:23.289

Luis Garicano: He could do it because the Esm. Was behind, and them country could make a new problem with the Us. And here.

288

00:40:23.360 --> 00:40:26.189

Luis Garicano: if they see what were to withdraw from Gpi

289

00:40:27.770 --> 00:40:30.570

Luis Garicano: Oh, how would the country would probably would

290

00:40:30.730 --> 00:40:35.619

Luis Garicano: default. So it's a very tricky decision for the Ecb. Without any fiscal involvement

291

00:40:35.800 --> 00:40:39.829

Luis Garicano: it has, in my opinion, put itself in a very complicated decision.

292

00:40:40.320 --> 00:40:56.989

Luis Garicano: It can't. It's gonna be very hard for this to to raise rates without causing physical tensions, because it's going to be very hard to at a zoom rate. Rates. You make a countries that less sustainable. And actually in the short and end of the year, which is what countries go when they're in in situations.

293

00:40:57.000 --> 00:41:05.329

Luis Garicano: and it's going to make it very hard to unwind the so in most long portfolios when he's worrying about this kind of instability.

294

00:41:05.940 --> 00:41:09.349

Luis Garicano: And now I want to tell you what the fiscal is. I told you they are suspended.

295

00:41:09.970 --> 00:41:22.039

Luis Garicano: The fiscal rules have been one of the big failures of the European Union on the street. this slide is very complicated, I'm aware. But I think all the message I want to make to you is, it is very complicated.

296

00:41:22.130 --> 00:41:36.270

Luis Garicano: These are the preventative, and this this debating growth, but which makes sure that countries follow the fiscal rules. There's a preventative arm, the corrective on. There's a governance. There's some flexibility all of these things have changed. 1, 2, 3, 4, 5, 6, 7 times in depth.

297

00:41:36.630 --> 00:41:45.359

Luis Garicano: for example, the exceptions have gone from deficit. 3% are acceptable in some particular thing, to a special circumstance, for deviation from the PIN in their objective

298

00:41:45.400 --> 00:41:55.590

Luis Garicano: for unusual event closes to excluding European events. I mean all these things have been changing and have making it so complicated. Let me just give you one example to give a fine.

299

00:41:55.940 --> 00:41:56.729

Luis Garicano: You need

300

00:41:57.140 --> 00:42:13.570

Luis Garicano: the commission. This is the process to leave to put the sanctions under the corrective. So the country is not behaving. It needs sanctions. The Commission has to 1, 2, 3, 4 times proposed something to the Council which the Council has to vote 1, 2, 3,

301

00:42:13.580 --> 00:42:19.600

Luis Garicano: 4 times by quality, 5 majority voting or reverse wi-fi, and the result is that? And this is one of my answers. The

302

00:42:19.700 --> 00:42:21.769

Luis Garicano: never has been fine

303

00:42:22.140 --> 00:42:27.630

Luis Garicano: put for violate individuals. Actually, can you specify what, if you

304

00:42:27.950 --> 00:42:37.729

Luis Garicano: so 5 min. Yes, qualify majority voting. You say it's a it's it's certain. I mean, because it's Sometimes it's a 7% of Member States enough

305

00:42:37.810 --> 00:42:41.590

Luis Garicano: a population and depending on on the individual step.

306

00:42:42.100 --> 00:42:44.399

Luis Garicano: so this is

307

00:42:44.490 --> 00:42:56.819

Luis Garicano: no fines in a time. Were not only just the average deficit that's been often over 3, but obviously, if the average deficit is there, you can imagine where they

308

00:42:57.350 --> 00:43:01.080

Markus Brunnermeier: So the Commission says also fine in the middle of a crisis, all that's

309

00:43:01.210 --> 00:43:02.100

Luis Garicano: yeah.

310

00:43:02.220 --> 00:43:10.259



Markus Brunnermeier: When you're in the middle of the euro crisis, it's hard to impose an additional final Yes, but you know that the moment this thing collapsed was here

311

00:43:10.370 --> 00:43:27.980

Luis Garicano: in Germany and France were the first countries to have deficits over the 3 to have the European Commission warned them to have the Council and then Portugal to have the Council say? No, no, no, no, Surely for political reasons, there was an election here

312

00:43:27.990 --> 00:43:38.439

Luis Garicano: in in Germany, basically once Germany, in France. In this moment where there was no crisis, no problems. It was just like, okay. This is the first time to make. If German, which is the proponent of these

313

00:43:38.510 --> 00:43:50.610

Luis Garicano: is not actually allowing this process to happen, then, probably from then on. People just don't believe in it. So it's here it's. I agree. It's not here where it finds you that impose

314

00:43:50.650 --> 00:43:52.029

It's here. What is your

315

00:43:52.610 --> 00:44:02.110

Luis Garicano: so the Commission says, Look, this process is that we don't like it. We're going to propose a different thing, and I think the right to propose a different thing. And this is just a very recent proposal

316

00:44:02.490 --> 00:44:08.970

Luis Garicano: which basically says, Look instead of having a preventative arm and stuff continuing reforms. You know we're going to do a big reform.

317

00:44:09.160 --> 00:44:13.949

Luis Garicano: We're going to classify countries in the groups through groups, low, minimum and high, and if you're in high risk.

318

00:44:14.050 --> 00:44:18.440

Luis Garicano: you have to negotiate a mutual annual adjustment path of your primary expenditure

319

00:44:19.030 --> 00:44:21.900

Luis Garicano: extremely unemployment insurance interest payments that seems to me.

320

00:44:22.160 --> 00:44:29.499

Luis Garicano: and it's much better than the security adjustment which nobody knows how to calculate, and goes up by one when it goes crazy up and down all the time.

321

00:44:29.830 --> 00:44:34.089

Luis Garicano: and you have to agree on a path path plausible decline over 10 years

322

00:44:34.460 --> 00:44:40.089

Luis Garicano: based on a planet. Up to that, you Council, based on the Commission. So you will look at it. And you say, Well.

323

00:44:40.140 --> 00:44:41.120

Luis Garicano: it's okay.

324

00:44:41.400 --> 00:44:43.649

Luis Garicano: The problem is the politics of this Look

325

00:44:44.820 --> 00:44:49.510

Luis Garicano: the past possible decline takes 10 years, and the Commission in the proposal says

326

00:44:49.780 --> 00:44:57.090

Luis Garicano: you can start seeing actually the clients of that, You know P. Ratios in 4 years, or in some cases in 7.

327

00:44:57.310 --> 00:45:03.910

Luis Garicano: There's no politician who can come me to for years. In fact, they all I will be happy to commit for something for years. It will just not matter.

328

00:45:04.110 --> 00:45:07.820

Luis Garicano: because it will be for the next.

329

00:45:07.900 --> 00:45:11.000

Luis Garicano: Also, the plan is based on the Commission assessment.

330

00:45:11.040 --> 00:45:13.180

Luis Garicano: Can really the Commission be trusted.

331

00:45:13.380 --> 00:45:18.970

Luis Garicano: I will tell you in a second, and then the sanctions

332

00:45:19.530 --> 00:45:37.269

Luis Garicano: does it at least applied. For the first 3 years there is a second, derivative, at least the increases slow down. There's nothing like this stated on this. No, it's it's it's a one to one plan negotiated. it has to be plausible decline. I mean, I guess, plausible. I would. I would imagine it would have to be

333

00:45:37.350 --> 00:45:39.989

Luis Garicano: it would have to be.

334

00:45:40.190 --> 00:45:53.579

Luis Garicano: or possibly do we conceal it? The problem is again, I don't think the Commission can be trusted. And and look at this. Many of you are watching our our our professors, or or working location in in many ways it's supposed to actually your PC. Students.

335

00:45:53.980 --> 00:45:56.490

Luis Garicano: This is the grades, the Commission

336

00:45:56.820 --> 00:46:02.610

Luis Garicano: days to the next generation to the all. The first batch of next generation plans.

337

00:46:02.630 --> 00:46:12.239

Luis Garicano: What what you will see is that in question one all the students get an a question. 2 or the students get an a question. 3 or the students get an 8. They only get these in question 9, and all of them

338

00:46:12.320 --> 00:46:13.410

Luis Garicano: good piece.

339

00:46:13.660 --> 00:46:17.010

Luis Garicano: This is how the Commission is taking the

340

00:46:17.060 --> 00:46:30.039

Luis Garicano: these. These are all countries with different environments, different everything. I can't imagine that one is not more careful with the environment. The other was no more careful with cost justifications. It seems hard to believe right, but they all get the same grades.

341

00:46:30.090 --> 00:46:38.419

Luis Garicano: because the Commission ultimately is a political referee, subject to political constraints. And so I think my main criticism of this.

342

00:46:38.620 --> 00:46:45.940

Luis Garicano: The proposal is, the governance has to be taken out. We have the Europeans to this Stability Board. We have one.

343

00:46:46.000 --> 00:46:51.600

Luis Garicano: the possibility of creating agencies. We have independent fiscal agencies. This has to be taken out.

344

00:46:52.670 --> 00:47:10.790

Luis Garicano: so the councils are not the the the National Fiscal Councils, and there's a Europe in Fiscal Council. They're not involved at all. No, this was something that Imf was pushing for. The Commission has been criticized for not involving the national fiscal consoles as as as as they would have wanted.

345

00:47:10.890 --> 00:47:29.690

Luis Garicano: I am still doubtful that national fiscal councils would have been willing to put their governments in a Tri Victoria, which would have been very politically difficult. I think you should be a European fiscal Council that comes about the European Central Bank. We can talk about proposals. I don't know. How many minutes do we have, Microsoft? We have 5 slides. So about 10 min.

346

00:47:29.700 --> 00:47:36.439

Luis Garicano: Okay. So so just so. We can talk briefly about this. I mean my ideally. I would the way I would like to see in Microsoft be

347

00:47:38.160 --> 00:47:39.009

Luis Garicano: hey?

348

00:47:39.080 --> 00:47:40.910

Luis Garicano: Something involving

349

00:47:41.040 --> 00:47:51.980

Luis Garicano: a a fiscal council that has the ability to to allow access to some sort of joint borrowing mechanism for the fence for all the joint European public goods that we really do need any transition

350

00:47:52.220 --> 00:47:57.530

Luis Garicano: in exchange for good behavior by the countries. Imagine there was a European physical currency that could say, look we.

351

00:47:57.810 --> 00:48:03.499

Luis Garicano: here is a pot of money that we have issued together. People can get to this money

352

00:48:03.560 --> 00:48:20.270

Luis Garicano: if they are in compliance with these recommendations, then countries can sell to their voters. No, no, we are doing this adjustment, this growth rehearsing before, because we're going to get this extra money that seems politically plausible and incredible, because you have an external agency. What is being set up?

353

00:48:20.320 --> 00:48:24.830

Luis Garicano: I'm sorry, but it's one more turn of the screw of the same thing we've been having

354

00:48:24.970 --> 00:48:30.209

Luis Garicano: since 1,999 that never has led to to consolidation. So what next?

355

00:48:31.470 --> 00:48:34.880

Luis Garicano: So how are how is such a debt or hand soft.

356

00:48:35.720 --> 00:48:37.100

Luis Garicano: So think of

357

00:48:37.390 --> 00:48:46.519

Luis Garicano: all the situations you've seen for Second World War, and many other case where you see big debt that you have growth has been real once.

358

00:48:46.950 --> 00:48:50.409

Luis Garicano: G. Much much much bigger than our with the idea of.

359

00:48:50.450 --> 00:48:52.269

Luis Garicano: Then we will need to do anything

360

00:48:52.470 --> 00:49:00.459

Luis Garicano: erez agmoni. the problem is that I think, with our reforms. What the last decade or 2 decades of Europe suggest is that we don't get growth without reforms. 150

361

00:49:00.730 --> 00:49:12.930

Luis Garicano: you need, and for that you need to take on vested interest, and and these happened in Greece and Portugal, in Ireland Post 2,012, and I want to say that these theme countries have been doing pretty well 150;

362

00:49:13.330 --> 00:49:15.580

Luis Garicano: that there is a huge amount of

363

00:49:15.780 --> 00:49:30.480

Luis Garicano: criticism of all the conditionality. And what happened in 2,010, with a noticing that these were countries that have actually managed to go in a pretty good growth path, since. So that's one possibility. The second is pure of state.

364

00:49:30.590 --> 00:49:45.549

Luis Garicano: but that we know hurts, taxpayers, hers in general public this is difficult. I'll be using my preferences for reforms that need to grow. I don't see any discussion in the European country of the other possibilities not to pay

365

00:49:45.710 --> 00:49:46.419

Luis Garicano: how

366

00:49:46.530 --> 00:49:47.470

Luis Garicano: you can default.

367

00:49:47.910 --> 00:50:06.619

Luis Garicano: although the more depth they see Central Bank holds the less than the folk is going to work, because obviously the central bank is part of the Consolidated General Budget. So the folding in the central bank this changes where it is. So you're going to basically need a bigger hairpack or private creators. The more the central bank has.

368

00:50:06.630 --> 00:50:17.680

Luis Garicano: and obviously private creators are not going to stand for. So the default also becomes less likely with this large amount of this held by the central bank and inflation

369

00:50:18.040 --> 00:50:19.870

Luis Garicano: which seems right now

370

00:50:20.500 --> 00:50:34.959

Luis Garicano: the possible path of this resistance. But since the Qa has shortened the Consolidated, that, to duration. A little bit of inflation is to go and not going to help because it gets all refinance. So you will get. You will need more inflation to to get rid of the debt.

371

00:50:34.980 --> 00:50:52.099

Luis Garicano: Sorry, so it's good to know it's only also about defines. You open the sanctions. is it possible to use the next generation funds. If you don't behave, you don't get the next generation funds that is, that was the promise of this month. These funds

372

00:50:52.310 --> 00:50:55.070

Luis Garicano: we're not these funds, and Gido had

373

00:50:55.280 --> 00:50:56.240

Luis Garicano: 2

374

00:50:57.110 --> 00:50:58.470

Luis Garicano: rationals

375

00:50:58.530 --> 00:51:00.049

Luis Garicano: for some people.

376

00:51:00.070 --> 00:51:04.390

Luis Garicano: There were kings and funds. He was about Steven. So what getting the economy going

377

00:51:05.030 --> 00:51:10.200

Luis Garicano: for many of us, including me. There were structural funds. They were the opportunity to get growth.

378

00:51:10.570 --> 00:51:13.649

Luis Garicano: and the way that we would get growth would be. Look.

379

00:51:13.850 --> 00:51:15.810

Luis Garicano: you're going to have to present the plan.

380

00:51:15.840 --> 00:51:21.529

Luis Garicano: You're going to have to fulfill this country-specific recommendations. Which are growth enhancing reforms.

381

00:51:21.580 --> 00:51:23.059

Luis Garicano: If you want to get the money

382

00:51:23.630 --> 00:51:24.370

Okay.

383

00:51:25.070 --> 00:51:26.509

Luis Garicano: that was.

384

00:51:26.530 --> 00:51:33.869

Luis Garicano: You want to have to consolidate. Get your pensions straight, and you want to have to get. You know, better energy policies, etc., etc.

385

00:51:33.950 --> 00:51:47.049

Luis Garicano: So this is the promise of the next generation. Funds it, as us set up in the Recovery and Reconstruction Fund, which is the main fund that has used this money in which I are participating in in writing. For now

386

00:51:47.490 --> 00:51:49.240

Luis Garicano: what happens is that

387

00:51:49.960 --> 00:51:54.639

Luis Garicano: either you can have 2 hypotheses, and I let you choose. I don't. We don't need to be me.

388

00:51:55.000 --> 00:52:00.310

Luis Garicano: even because the case and reasons predominated, and people the Commission thought, Look

389

00:52:00.560 --> 00:52:06.040

Luis Garicano: we cannot get money. People without this money, because they need it for growth. We can stop this flow of money.

390

00:52:06.380 --> 00:52:17.550

Luis Garicano: or because politics dominated, and the Commission, after all, the austerity wanted to be popular, and go there and take a nice picture with the Prime Minister, saying, hey, we're all friends, etc. The truth of the matter is

391

00:52:17.570 --> 00:52:23.240

Luis Garicano: the Commission. My opinion has not let me be clear. My opinion has not done its job

392



00:52:23.550 --> 00:52:30.090

Luis Garicano: of demanding serious reforms, and I can tell you for me the most clear example has been the Spanish pension reform.

393

00:52:30.550 --> 00:52:33.319

Luis Garicano: It's very special for me both to things

394

00:52:33.430 --> 00:52:47.609

Luis Garicano: and making them more sufficient, and making them more sustainable. Anybody who wants to do those 2 things. One is raising the capacity to pay, or one is raising the capacity to pay, or one is's raising the pages, the ones lowering them. Whatever way you want to talk about it

395

00:52:47.900 --> 00:52:49.719

Luis Garicano: once you do the story folks together

396

00:52:50.140 --> 00:52:53.579

Luis Garicano: wants to give the broccoli and the dessert at the same time.

397

00:52:53.830 --> 00:53:04.539

Luis Garicano: What the Commission did is they've spend the desert it allows, paying to like, get rid of all the automatic adjustment mechanisms that have been introduced in 2,012 as part of the reforms during the crisis.

398

00:53:04.860 --> 00:53:08.530

Luis Garicano: and said, okay. And next year and we'll give you a check when you do this.

399

00:53:08.620 --> 00:53:15.249

Luis Garicano: and next year you are supposed to think about making this a schedule, which is the deadline thirty-first of december that this is going is doing with right now.

400

00:53:15.480 --> 00:53:16.830

Luis Garicano: So something

401

00:53:16.880 --> 00:53:26.399

Luis Garicano: erez agmoni that could have been okay, good, patient reform for Spain. If you are serious about, understand the politics and forcing it has transformed into basically freeman 250.

402

00:53:26.620 --> 00:53:31.140

Luis Garicano: That is my fear and and give us completely right. That would have been

403

00:53:31.510 --> 00:53:35.059

Luis Garicano: the money that should have been making this sustainable.

404

00:53:35.570 --> 00:53:44.989

Markus Brunnermeier: so and also concerning this up a slide you know, one big element of getting the that level down of the Second World War was also financial repression.

405

00:53:45.490 --> 00:54:01.959

Luis Garicano: do you think it's possible to do? We need financial repression to achieve that Again, I think I don't know how many has been, has been arguing that this is where we heading. This is the only place where we where this thing ends.

406

00:54:01.970 --> 00:54:06.679

Luis Garicano: and and on the basis of a sort of evidence. I think that's that's that's

407

00:54:07.550 --> 00:54:15.679

Luis Garicano: That's one possibility. I mean, we free Capital mobility is not the same as under bread and Bo right? What what is your view in in that? In in the current world.

408

00:54:15.720 --> 00:54:16.680

Luis Garicano: I mean.

409

00:54:16.800 --> 00:54:22.930

Luis Garicano: people are not going to allow below below market rates returns right.

410

00:54:24.300 --> 00:54:28.359

Markus Brunnermeier: I mean, as long as the whole world is doing it. It's probably fine, because you can't

411

00:54:28.600 --> 00:54:32.950

Markus Brunnermeier: good point. If the Us. Is doing much better than people will move out of your

412

00:54:33.200 --> 00:54:43.839

Luis Garicano: great points. That's gonna depend on the International. So let me just make 1 point about Qe. It's very interesting today. When I got to I was watching that press conference, and she was talking about

413

00:54:43.860 --> 00:54:50.640

Luis Garicano: this cute Q. A quantity ting has nothing to do with the monetary policy stands nothing, so it's not all information. It's about something else.

414

00:54:50.980 --> 00:54:57.280

Luis Garicano: and it's very interesting, because when we they did put the queue, it was about monitoring in about nothing else.

415

00:54:57.510 --> 00:55:00.449

Luis Garicano: and the truth is that we

416

00:55:00.720 --> 00:55:02.090

Luis Garicano: is going to work

417

00:55:02.190 --> 00:55:12.849

Luis Garicano: against the current interest rate increases the previous que if they don't do the Qt. It's going to work in. The interest rate increases for the simple reason that they back in the central bank has a huge balance sheet.

418

00:55:12.860 --> 00:55:24.840

Luis Garicano: 4.5 trillion in excess research right now by the banks in the post it in the it's you the Tlc Aros, where where the bank has already said they're not going to pay anything. So you have 3 trillion of access research.

419

00:55:25.120 --> 00:55:38.479

Luis Garicano: and and the market expects a terminal right to be 3. So back of the envelope. That means they see this going to be paying 9 to be in a year. That's kind of a directly credit injection. Apart from it, transfer from taxpayer, Apart from a loss of category for the national central banks.

420

00:55:38.610 --> 00:55:42.080

Luis Garicano: and to some extent it is working country to the in.

421

00:55:42.090 --> 00:56:03.839

Luis Garicano: So. So, for a string of PCB. Having these ball, like seeds, is also not obvious, not just from the perspective of the incentives of the but one policy measure will be to increase, required,

and enumerated none of them when it to serve and load the excessive service in order. But let's just financial profession, in a sense which is financial repression. And in fact, we we all remember in the sixties and seventies this

422

00:56:03.850 --> 00:56:21.509

Luis Garicano: or believe that the division we can access, we simply receipt, and they'll be at the recess kind of arbitrary. So you already have to be treated in that. Let's call of this 3 trillion altogether reserves end of the story that it's 0 or iteration. Right now. The bank is paying on all of this research

423

00:56:21.520 --> 00:56:27.479

Luis Garicano: the deposit rate which goes up each time the monetary party side Titans, and you completely right.

424

00:56:27.500 --> 00:56:31.239

Luis Garicano: From one day to the next. The European Central Bank would say, Sorry.

425

00:56:31.500 --> 00:56:34.219

Luis Garicano: These are obligatory reserves, and this is not familiar

426

00:56:34.400 --> 00:56:37.419

Luis Garicano: to your complete, completely right? And that's one solution.

427

00:56:38.210 --> 00:56:49.050

Luis Garicano: so the risk that I wanted to point out is there is that the Ecds to some extent for the hub. The hypothesis rates may backfire be our mind. G we are prop in the the growth rates.

428

00:56:49.270 --> 00:56:56.519

Luis Garicano: and with a Qt. The Ecb is inviting countries this to 19 almost 20 countries to hold it. Hostage!

429

00:56:56.860 --> 00:57:07.470

Luis Garicano: the the down and sheet normalization of this 330 month horizon to be very long. There will be another crisis, another tenable, and she will be bigger.

430

00:57:07.530 --> 00:57:14.629

Luis Garicano: We don't have any buffers there, and at some point my fear, and if you're I wanted to share with you. Even situation is

431

00:57:14.700 --> 00:57:17.849

Luis Garicano: that inflation at some point is really

432

00:57:18.030 --> 00:57:25.709

Luis Garicano: the only answer to this conundrum. so thanks very much, and happy to take any other questions from you.

433

00:57:25.760 --> 00:57:36.369

Markus Brunnermeier: So I mean, of course, the inflation only works really, if it's either a financial recession or surprise inflation. So for this you have to log in some long term that complex. So do you.

434

00:57:36.630 --> 00:57:43.039

Luis Garicano: Yeah, no, I I agree with you, Microsoft, the the the length, the length, has been shortened very much. By Qe.

435

00:57:43.150 --> 00:57:48.180

Luis Garicano: The average maturities are relatively short, talking about 5, and I mean

436

00:57:48.330 --> 00:58:07.500

Luis Garicano: and below 5 year debts, and all of that gets refinance once the inflation rate is higher. I was looking at other refinancing needs somewhere like Italy, for example, has to refinance something like 25 between interest rate payments. And roll over 25 of gdp this year so that's that already that it's even whatever inflation you have

437

00:58:07.510 --> 00:58:14.849

Luis Garicano: he's not getting rid of that debt, because that's already that that is price of the new rates. So so you're very right. Inflation, is

438

00:58:14.900 --> 00:58:24.079

Luis Garicano: It's not. I mean eventually, it's. I mean, we all fear this kind of situation where eventually you need higher inflation in order to do the same effect

439

00:58:24.090 --> 00:58:35.339

Markus Brunnermeier: of cutting that as as as before. I I would love to hear what what you think about that. I mean what I can see. It, too, is as we talk about your requirements to also going up, which is essentially a tax on the banks.

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00:58:35.920 --> 00:58:45.899

Markus Brunnermeier: and the other thing is to just require the banks to hold most of them points from some liquidity markup, potential regulation. And these are all financial.

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00:58:46.050 --> 00:58:50.200

Markus Brunnermeier: and the question is, are the bank strong enough to sustain that?

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00:58:50.340 --> 00:59:01.330

Markus Brunnermeier: So so this makes sense of an incentive to be weak, because if there's wrong, they'll all this measures will be pushed out of their boundaries. I remembered you you had a lecture in 2,016 in Italy.

443

00:59:01.420 --> 00:59:07.699

Luis Garicano: where you were. We were arguing. This point, I think, is a really good point, right that a bank

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00:59:07.810 --> 00:59:10.970

Luis Garicano: that is strong is kind of very subject to

445

00:59:11.020 --> 00:59:30.159

Luis Garicano: to to be used as a source, or is not going to be without in the bank that is weak. As As you were saying, Microsoft, right now is one that cannot be used as a cash cow for for so in bones, for for financial repression. So I agree with you that banks are going to fight

446

00:59:30.680 --> 00:59:47.779

Luis Garicano: really hard against all what they were already fighting very hard, because bustle of the regulations. They they were really kind of trying to empty them out when I was in Parliament. I don't know what's happening now. There was really a concerted effort by the German and French to to to to get rid of that, and I think even more now.

447

00:59:47.830 --> 00:59:52.810

Luis Garicano: because you're right, and the writing probably for them is is on the wall.

448

00:59:53.070 --> 00:59:53.979

Markus Brunnermeier: I mean the

449

00:59:54.100 --> 01:00:01.530

Markus Brunnermeier: we have to watch for another start developing payments now and purchase stock for purchases, because that's probably the optimal response for them at the moment.

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01:00:01.690 --> 01:00:04.810

Luis Garicano: I think that is the optimal response. You You are very right, and

451

01:00:04.960 --> 01:00:18.369

Luis Garicano: and and I think that that I don't know if you saw from the I. Maybe you are in need. Actually, what part of the people do we need? They have a Srb. an index of of risk in the financial stability risk, and

452

01:00:18.380 --> 01:00:25.439

Luis Garicano: it was not obviously not at the financial crisis levels, but it was definitely in the highest levels in the last 10 years. One

453

01:00:25.560 --> 01:00:31.110

Luis Garicano: I could imagine private debt being an issue pretty soon, and as a result we

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01:00:31.210 --> 01:00:38.719

Luis Garicano: relatively quickly see repercussions towards the private banks. So I would expect and hope

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01:00:38.780 --> 01:00:53.029

Luis Garicano: that, did. Financial. As you said, the financial Regulators are really cautious on this. So the other question I have which is related to financial a question is the digital euro? So one can see that you know I have a digital currency of popping up.

456

01:00:53.620 --> 01:00:58.770

Markus Brunnermeier: and there might be some which are alternatives which make financial question more difficult.

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01:00:59.220 --> 01:01:13.960

Markus Brunnermeier: And by having to digital euro you have probably better tools to also outlaw the gravitational currency is to think that's what's going on behind the literally as well that it's essentially a way to ensure. We can do financial repression at the end of the day.

458

01:01:14.090 --> 01:01:36.399

Luis Garicano: I think the digital you're definitely allows, allows I I I I also think of it in a in a very similar way. But let me just. He's just go back historically 1 one bit, which is to say that when the European Central one has really been concerned, and starting to think of digital hero has been in China and Facebook. I've moved. Facebook came first. Everybody panic we're going to lose. And you us. This is gonna happen

459

01:01:36.410 --> 01:01:48.779

Luis Garicano: in some private way. We need to be in this business in China. As well give the support that I agree with you that that it does allow much more financial repression. I I I just want to make one comment about the design.

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01:01:48.870 --> 01:01:58.180

Luis Garicano: I saw how you panic are testifying in in in Parliament by asking questions and pushing. There's something really interesting about the design of the digital you, which is.

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01:01:58.730 --> 01:02:03.470

Luis Garicano: It is one of the strange times when you are doing the design

462

01:02:03.520 --> 01:02:23.090

Luis Garicano: wrong or badly on purpose, they the fear of the Ecb. That this is the Europe, would be so successful. I mean, think of it for our audience. If you can put \$100,000 directly with the European Central Bank, why would you have a \$100,000 in in your private bank that is subject to bank runs such as you put it there, and you forget about it now.

463

01:02:23.700 --> 01:02:38.229

Luis Garicano: They would be scared that banks would run out of the funding because people take it there, they would cause financial stability. They think that's very dangerous, so they are looking for how to make a digital Europe bad or honeycup. This

464

01:02:38.700 --> 01:02:50.730

Luis Garicano: limiting maximum payments and maximum amounts you can hold in it, and by including the costs, by raising interest rates, that by by by putting some cost of holding the money that is of you.

465

01:02:51.370 --> 01:02:59.380

Luis Garicano: I don't know if politically, that would be viable once the you know your existed. Once people were able to put 10,000, there will be pressure to. Why can they not put 15,000?

466

01:02:59.590 --> 01:03:08.740

Luis Garicano: But you're right the other side of the coin is the European Central Bank would be able within Europe to put the interest rates down on cash as much as it wanted. Once we're using that for.

467

01:03:09.500 --> 01:03:25.479



Markus Brunnermeier: So in particular, during crisis times, you would say that the question of political question will be so large to lift the limit from the limit, some people would say, Why do I have to be exposed to this? If I have this order perfectly fine, this all this credit card is subject to this other beautiful one.

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01:03:25.530 --> 01:03:27.580

Luis Garicano: It's not something to risk. So please

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01:03:27.620 --> 01:03:32.229

Luis Garicano: raise the limit, and the politicians say, yeah, raise the limits. What do they say? It is logical.

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01:03:33.510 --> 01:03:47.909

Markus Brunnermeier: So who should decide the design issues? Should it be the European Parliament? Or should it be the Ecb. Give it what you've just said. It needs to be an independent institution, saying, okay, this is clearly, politically unpopular. We stick with it 2 or €3,000 limit.

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01:03:48.000 --> 01:03:53.620

Markus Brunnermeier: I think it is I mean i'm already.

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01:03:53.650 --> 01:04:07.720

Luis Garicano: I think they should be. They should be very wary of of taking too much of a lead here, because I I think it's ultimately a huge political decision that affects the value of banks and the shape of the entire financial system.

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01:04:07.920 --> 01:04:13.319

Luis Garicano: and it not, I mean, and I have. I have told this to them in private and

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01:04:13.430 --> 01:04:22.990

Luis Garicano: interventions in the Parliament. This not should not be considered to some technical design problem, but it should be really implemented through proper legislation and proper

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01:04:23.050 --> 01:04:24.960

accountability with with both

476

01:04:25.180 --> 01:04:26.850

Luis Garicano: the countries in the

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01:04:28.800 --> 01:04:38.680

Markus Brunnermeier: So I won't like to follow up with one question good along, and Sony asked about, you know, using tax you're using cash to to avoid taxes, and i'm just reading this question to you.

478

01:04:39.080 --> 01:04:46.499

Markus Brunnermeier: So by it comes back to the early question he had about the you know, the the sanctions you can impose from next generation. You.

479

01:04:46.790 --> 01:04:57.559

Markus Brunnermeier: so he says in for Italy a more explosive example of that but smallest in smaller scale. Now, Italy is trying to pause a budget law making life easier for tax evaders to use cash.

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01:04:58.060 --> 01:04:59.199

Markus Brunnermeier: You, do you?

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01:04:59.340 --> 01:05:06.650

Markus Brunnermeier: You see, says the When Commission say is saying that it's not okay, because under the Cabinet plan you committed to a current tax evasion.

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01:05:06.740 --> 01:05:12.960

Markus Brunnermeier: and Italy will have to change the budget law. This seems like it really successful, so it's like an example where the next generation

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01:05:13.110 --> 01:05:29.190

Luis Garicano: you know it at least says to the government, you can't really promote tax evasion. I'm really really delighted. If this is happening, i'll congratulate the commission. I didn't know the example. And and this is what, indeed, next Jen should be; for to to make sure that

484

01:05:29.350 --> 01:05:33.909

Luis Garicano: that the reforms are implemented, and that the countries are actually

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01:05:33.990 --> 01:05:35.180

Luis Garicano: not

486

01:05:35.400 --> 01:05:40.109

Luis Garicano: kind of pulling their whole fiscal sustainability and growth situation.

487

01:05:42.350 --> 01:05:49.649

Markus Brunnermeier: So normally we have to. You know you outlook. It looks very bleak. It doesn't look very positive for the area.

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01:05:49.930 --> 01:05:58.550

Markus Brunnermeier: Can you give us a positive spin on it? How do we get out of it? In a sense? What should we change?

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01:05:58.810 --> 01:06:05.799

Luis Garicano: i'm an extreme extreme pro-european, and I am somebody who believes that Europe is

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01:06:05.970 --> 01:06:07.450

the solution.

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01:06:07.520 --> 01:06:08.870

Luis Garicano: I do believe that

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01:06:09.560 --> 01:06:10.390

Luis Garicano: what

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01:06:10.500 --> 01:06:14.099

Luis Garicano: what we get seem to get back every time. Is that

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01:06:14.260 --> 01:06:15.910

Luis Garicano: Europe

495

01:06:16.520 --> 01:06:18.419

that.

496

01:06:18.600 --> 01:06:19.529

Luis Garicano: I mean

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01:06:19.800 --> 01:06:31.039

Luis Garicano: is that need some sort of political union behind me in some sort of fiscal support behind it in a in a real budget and a real budget comes with the ability to set some taxes, and we need to have a government

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01:06:31.050 --> 01:06:46.199

Luis Garicano: and what you, a Europeans should be thinking about is that it's not that it should be. Energy should be. The war should be our

security in the future of defense commitments, and we shouldn't be having to think about who is going to pay, and how the debt, and that would require a single

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01:06:46.940 --> 01:06:53.629

Luis Garicano: some sort of single European political entity with one present, etc., and you cannot do that with 27.

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01:06:53.960 --> 01:07:11.019

Luis Garicano: So I think that driving was pointing that out last year in the Parliament in one way my chrome has, because in other ways I mean, we do need set of countries who decide that they want to advance further. We cannot continue having COVID-19 and people like him. By the way.

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01:07:11.200 --> 01:07:24.870

Luis Garicano: there was one big success of this next thing that I didn't mention, which was the rule of lawmakers and just force urban to start changing everything. So so I don't want to say that that we are not doing any conditions, because the rule of the conditions have been so.

502

01:07:25.090 --> 01:07:29.470

Luis Garicano: The rule of conditions that are are are are kind of good. It could sign.

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01:07:29.650 --> 01:07:34.540

Luis Garicano: We have, I think, the German this and next generation you

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01:07:34.580 --> 01:07:35.390

Luis Garicano: of

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01:07:35.470 --> 01:07:41.289

Luis Garicano: the European countries believe, realizing that they can also be to some monetary non solution that we need some

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01:07:41.360 --> 01:07:46.019

Luis Garicano: fiscal tools to deal with physical problems, and I hope that

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01:07:46.160 --> 01:07:47.450

Luis Garicano: we can walk

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01:07:47.750 --> 01:07:52.109

Luis Garicano: towards a real political union by smaller set of countries.

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01:07:52.270 --> 01:07:55.310

Luis Garicano: and that really has the ability to

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01:07:55.950 --> 01:08:02.589

Luis Garicano: raise some taxes and pay that, and and in the normal way, that that that they should. And I think that

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01:08:04.220 --> 01:08:10.489

Luis Garicano: you know, Europe was building crisis, as when I said, and the construction will be the result of all this crisis.

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01:08:10.950 --> 01:08:12.720

Luis Garicano: Maybe

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01:08:12.740 --> 01:08:15.539

Luis Garicano: we see. more of a

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01:08:16.140 --> 01:08:17.460

Luis Garicano: move towards

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01:08:19.220 --> 01:08:24.199

Luis Garicano: a new step in the construction. Once this construction that we are seeing proves

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01:08:24.290 --> 01:08:28.479

Luis Garicano: the fragility that I am anticipating, and i'm sorry to be a bit negative, but

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01:08:28.510 --> 01:08:30.439

Luis Garicano: that's how I see it.

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01:08:31.010 --> 01:08:45.330

Markus Brunnermeier: It becomes hard, you. But you're more hopeful that the rather than getting the fiscal house in the water, you're all hopeful that people are unified in military in Europe, and people give up military. You know Germany, France. There's every sense for this to pressure vessels.

519

01:08:45.899 --> 01:08:56.110

Luis Garicano: I I would think that. so these are the 2 big, big, missing parts, right? We don't have as a way to tax people, and we don't have a common defense, and both

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01:08:56.160 --> 01:08:57.359

Luis Garicano: have been kind of

521

01:08:57.460 --> 01:09:04.390

Luis Garicano: done by unanimity historically, and of course, military. We have one contribution to your work and all the rest. Don't you

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01:09:04.410 --> 01:09:07.669

Luis Garicano: one kind of a Security Council Seat and the other ones Don't and

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01:09:07.819 --> 01:09:27.150

Luis Garicano: and we also have the reality that the countries in the north of Europe have decided that they Don't trust Germany in France anymore, because when he came he came to the trouble. It was the Us. Was defending them in Germany, in France. So so I realized all the problems with with the fencing, the National Union. But I do think that

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01:09:28.080 --> 01:09:36.269

Luis Garicano: ere

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01:09:36.649 --> 01:09:40.690

Luis Garicano: that that reality becomes more and more apparent with this work.

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01:09:40.750 --> 01:09:47.919

Luis Garicano: I I mean, you know, when you sit on the inside, everything looks like really kind of impossible to move, but we all know.

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01:09:48.020 --> 01:09:54.570

Luis Garicano: but it seems impossible until you know. When I went into power in 2,019, I left Academia. I went for 3 years, and you've been problem in.

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01:09:55.070 --> 01:09:57.250

Luis Garicano: I didn't think we would issue your bodies.

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01:09:57.380 --> 01:10:01.519

Luis Garicano: I mean you and I know that America had said so many times no way.

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01:10:01.760 --> 01:10:03.230

Luis Garicano: and even kind of

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01:10:03.300 --> 01:10:10.200

Luis Garicano: synthetic Europe won't seem like it's too much. And then suddenly things could happen that we thought we're impossible. So I am hopeful.

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01:10:10.390 --> 01:10:18.950

Markus Brunnermeier: I believe, in your European construction. I think so, coming with the fine question about inflation. What? How big it do you think is the risk that inflation stays high.

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01:10:19.100 --> 01:10:21.870

Markus Brunnermeier: and with it the reputation of the

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01:10:21.960 --> 01:10:27.879

Markus Brunnermeier: will it, then the reputation of the whole European project will be questioned. So, in particular.

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01:10:28.730 --> 01:10:36.930

Markus Brunnermeier: very dangerous. Right now we get to cover up the Ukrainian war, and they say, oh, it's all because of the Canadian war. But once this goes away

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01:10:36.960 --> 01:10:50.260

Luis Garicano: people will say it's your fairly divided institution. If i'd love to deal with this, i'll venture a forecast which I should never do in exchange. You do your own after me. Okay, so so I would say.

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01:10:50.280 --> 01:10:57.940

Luis Garicano: My guess is that, given the difficulty putting our fiscal house in order, the kind of logic that you anticipated before my talk

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01:10:58.320 --> 01:11:05.569

Luis Garicano: and the fiscal type. Logic that leads to to to to inflation.

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01:11:07.000 --> 01:11:13.659

Luis Garicano: seems pretty strong, but that that type of logic we do evaluate, not going step by step, showing people why we?

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01:11:13.770 --> 01:11:26.400

Luis Garicano: It seems to me that that points to much longer and more standardization. In my first slide I showed the Acb. Has again raised its

forecast for next year, postponed the moment it gets to 2 by another year.

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01:11:26.600 --> 01:11:31.690

Luis Garicano: I would imagine that that's going to happen multiple times, and my only question would be, do we think that it's

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01:11:31.990 --> 01:11:37.740

Luis Garicano: stable 5% for a few years or inflation that kind of feature on itself

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01:11:37.790 --> 01:11:44.449

Luis Garicano: and accelerate? But I would expect one of those 2 to be more expectable, and it's on the basis of what I

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01:11:44.560 --> 01:11:47.690

Luis Garicano: just outline on the fiscal site. But it's very of you.

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01:11:49.670 --> 01:11:59.950

Markus Brunnermeier: You know that I i'm afraid that I mean what I'm afraid is if inflation stays high, the trust in the European institutions in general will go down, and then the whole European project will be

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01:12:00.180 --> 01:12:03.909

Markus Brunnermeier: putting question. That's why I think it's really central to

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01:12:04.210 --> 01:12:16.309

Markus Brunnermeier: to make sure this will not happen, and that's a huge responsibility on behalf of the Ec. Beyond. Just you know the mandate. It's just, you know, for serving the

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01:12:16.380 --> 01:12:17.090

Luis Garicano: that

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01:12:17.120 --> 01:12:22.459

Luis Garicano: Qt. Is important. Conditionality is important, making the Member States kind of

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01:12:22.650 --> 01:12:32.940

Luis Garicano: do the plans they committed with the semester. The Commission doesn't have to be panel, and madam from the line doesn't have to be smiling, giving checks to governments. She has to be there, saying, Look.



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01:12:33.050 --> 01:12:39.450

Luis Garicano: this is all Europeans money. You have to do certain things to receive it, and we have to be very, very, very

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01:12:39.570 --> 01:12:41.210

Luis Garicano: for.

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01:12:41.540 --> 01:12:56.530

Markus Brunnermeier: So Martin, realizing that the last question, then we close it's. Do you see, you know this political economy problems to go for a consolidation phase on the fiscal side. But do you think if they are coordinate at the European level, it will be easier to do some fiscal tightening.

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01:12:56.540 --> 01:13:08.950

Markus Brunnermeier: but often each country being prescribed by the Commission, saying, You have to do this, and this like we all do it together in a particular. We have a change in mindset right now. We still have a lot of this Mmt. Mind that we can just spend without problems.

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01:13:09.100 --> 01:13:13.559

Markus Brunnermeier: But if there is a change in mindset, and all of us, we try together to fix that.

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01:13:13.610 --> 01:13:18.419

Markus Brunnermeier: So that's feasible, or that's easier to obtain.

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01:13:18.650 --> 01:13:33.610

Luis Garicano: Yes, I see this as difficult in the moment the governments have kind of we. We. We learned 2 lessons from the pandemic, the ones that micro doesn't matter. You're going to have in prices and feelings that macro doesn't matter. You can expand your by the with the consequences. And

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01:13:33.620 --> 01:13:51.560

Luis Garicano: now you have to teach people again that that prices, relative prices are crucial. You can just subsidize all sorts of oil and fuel and gasoline and all sorts of things without limit. You have to again teach people that that the actual depth and different levels matter, and and politically there is no appetite for that in any European country

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01:13:51.570 --> 01:13:55.509

Luis Garicano: there is no discussion of that, even in Germany, even the most

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01:13:55.800 --> 01:14:10.099

Luis Garicano: the country which is more careful with that. And that's not even in in the map. I think. so I would say you would have to be the European Central Bank, and I am not asking for fiscal consolation. Short run that says next year, you Lord, you!

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01:14:10.250 --> 01:14:14.800

Luis Garicano: I'm asking for medium term sustainable plans that starts with

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01:14:15.500 --> 01:14:19.409

Luis Garicano: pension systems that are sustainable. And if you get that

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01:14:19.780 --> 01:14:30.910

Luis Garicano: firm and people see that they in the depths are sustainable, then you can be a little bit more flexible with the short one. But you need to be sure that that you have systems that are sustainable.

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01:14:32.410 --> 01:14:42.429

Markus Brunnermeier: Thanks a lot, Louise. I think you fantastic. Exposition. What's going on? It's probably a Monday sand side. Hopefully, the whole thing will be turned around, and

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01:14:42.630 --> 01:14:51.069

Markus Brunnermeier: You can go forward with the European project. That, of course, and thanks again, and Mr. In touch to talk to you soon.

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01:14:51.330 --> 01:15:00.490

Markus Brunnermeier: everybody and I wish all of you happy holidays and the Happy New Year. We see each other next year, and thanks for hanging with us, staying with us for

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01:15:00.640 --> 01:15:02.620

Markus Brunnermeier: so many sessions. Now, bye, bye.