

# T17bP18 / Rethinking and Designing Macroeconomic Policy

**Topic :** T17b / Sectorial Policy - Economics

**Chair :** Yagci Mustafa (Istinye University)

**Second Chair :** Mehmet Kerem Coban (SOAS, University of London)

## GENERAL OBJECTIVES, RESEARCH QUESTIONS AND SCIENTIFIC RELEVANCE

Central banks and unconventional monetary policy measures have been hailed for avoiding another depression in the world economy in the immediate aftermath of Global Financial Crisis (GFC). However, eight years after the onset of GFC policy-makers around the world are now being challenged with over-reliance on monetary policy measures in different contexts. Moreover, unintended consequences of over-reliance on monetary policy has started to emerge. Relatedly, recently there have been calls for more fiscal stimulus but these calls yet to materialize. The debates on appropriate policy responses to the crisis have stirred rethinking of macroeconomic policy in terms of goals, means, instruments to be utilized and how to use these instruments in different contexts (Blanchard et al. 2010).

This panel aims to contribute to the debates on rethinking macroeconomic policy with a specific focus on policy design principles and how to achieve a coherent set of policy goals and means in different contexts (Howlett, 2009). In this respect, the panel puts particular emphasis on the design of and relationship between fiscal and monetary policy measures and their interaction with other policy domains. In line with the advances in the policy design literature, it is critical to acknowledge the policy mixes, policy advisory systems, political interests and ideas involved in the design of macroeconomic policies and how design evolves through time (Howlett, 2014). Moreover, with a focus on the policy stages (i.e., agenda setting, policy formulation, implementation, and evaluation), single or comparative case studies would be more informing due to their in-depth treatment of the case(s) under investigation, which are considered to examine context-specific particularities.

Therefore, the panel aims to contribute to policy design studies with a focus on macroeconomic policy design with multiple theoretical, methodological considerations; while emphasising policy implications. This panel calls for papers examining different dimensions of fiscal and monetary policy design, their interaction with each other and other policy domains in various jurisdictions. Single or comparative case studies covering both advanced and emerging economies are invited. Interdisciplinary approaches including but not limited to institutional, organizational, social, political, economic and financial dimensions of macroeconomic policy design are encouraged.

### References

Blanchard, O., Dell'Ariccia, G., & Mauro, P. (2010). Rethinking macroeconomic policy. *Journal of Money, Credit and Banking*, 42(s1), 199-215.

Howlett, M. (2009). Governance modes, policy regimes and operational plans: A multi-level nested model of policy instrument choice and policy design. *Policy Sciences*, 42(1), 73-89.

Howlett, M. (2014). From the 'old' to the 'new' policy design: design thinking beyond markets and collaborative governance. *Policy Sciences*, 47(3), 187-207.

## CALL FOR PAPERS

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## Session 1

Thursday, June 29th 10:30 to 12:30 (Block B 3 - 7 )

### Discussants

Yagci Mustafa (Istinye University)

Colin Thain (University of Birmingham)

### Radical Change hidden inside incrementalism: the case of UK macroeconomic policy-making 1997-2017

Colin Thain (University of Birmingham)

This paper reviews and assesses successive changes to the institutional arrangements and policy design of macroeconomic policymaking in the United Kingdom from the labour Government of Tony Blair to the current administration of Theresa May. Economic policymaking has undergone dramatic change and counter-change through ideological shifts and changes in ideational influences over this twenty year period. The role of key institutions has altered with greater independence to the central bank (the Bank of England) and a more strategic role being played by the Ministry of Finance and Economics (HM Treasury). The interaction of fiscal and monetary policy has evolved with and through the response to the Great Recession but this has coincided with considerable debate amongst parties, pressure groups and bureaus about the nature and speed of fiscal consolidation. We have seen a great deal of policy innovation – the use of QE, arms-length bodies to manage banking assets, new fiscal rules, changes to the public spending and planning regime, devolution of fiscal and economic power to regions, and an evolving set of protocols about the role of the Central Bank. Yet there has been considerable divergence between policy rhetoric and reality. The UK case study is a fascinating one in that it allows some analytical and theoretical speculation about how much easier it is to evolve policy when the constitutional structures are so malleable and in a jurisdiction where one key institution has been historically the lead actor invested with a great deal of autonomy. The paper benefits from the findings of a research project on the Treasury under New Labour.

### Impacts of Public Debt on Economic Growth: Evidence from ASEAN countries

Phuong Tran Thi (Yokohama National University)

This paper examines the relationship between public debt and economic growth by using a panel dataset of 10 countries in Southeast Asia over the period 1990-2010. Borrowing money from foreign sources such as other governments or international organizations as well as domestic markets can create a momentum for economic growth, especially for developing countries. On the other hand, continued borrowing by emerging countries will lead to an increase in public debt stock and cause some difficulties for the economy such as high debt service and pressure to raise taxes in the future. The question about the impact of public growth on the economy has been studied by many economists and policy makers. However, the various pieces of research have specific approaches whose results are rather not consistent.

Public indebtedness has strong influences on the country's credit worthiness and the perspective of investors. Given this, especially for developing countries, the question of whether or not high public debt level is good for economic growth should be a pressing one. And, if it is not, then what would be an appropriate threshold of debt threshold? How appropriate is it to set the baseline at such levels for public debt? What is the appropriate threshold level of public debt that would have negative impacts on economic growth? These are critically important issues that this research attempts to address. In 2015 the ASEAN Economic Community (AEC) was established as the target of regional economic integration, the macroeconomic policies of all members should be consistent. Debt blueprint is one of important necessary guidelines that will guide ASEAN nations to reach the

consensus of AEC. Therefore, studying the public debt issue in ASEAN is very relevant in that it will help member's governments integrate a debt policy for AEC in the near future. The objectives of the current study include the followings: (a) to discover the accurate relationship between public debt and economic growth in ASEAN countries; (b) to find the appropriate threshold level of public debt beyond which economic growth will decline if there is a non-linear relationship between public debt and growth in ASEAN.

Using two-way fixed effects model, the paper reports that gross public debt and domestic public debt are negatively correlated with economic growth; on the other hand, external public debt has a positive correlation with per capita GDP growth. The relationship between public debt and economic growth is linear, and no evidence of non-linear relationship is found in this study.

## **Evaluating Central Bank Policies with Qualitative Data Analysis**

Yagci Mustafa (Istinye University)

In the aftermath of Global Financial Crisis (GFC) central bank policies especially unconventional monetary policy measures such as quantitative easing, zero lower bound and negative interest rates have occupied the economic policy debates in many countries around the world. While political economy studies utilizing qualitative, case study methodology have scrutinized why and how central banks have engaged in different policies in different contexts, the impact of central bank policies and their evaluation have been largely left to researchers employing quantitative methodology. Different methodological approaches have both strengths, weaknesses and trade-offs, however studies that explore and evaluate central bank policies with systematic, rigorous qualitative methodology is almost non-existent. This paper attempts to fill this gap in the literature by offering qualitative data analysis (QDA) approach to evaluate central bank policies in an emerging economy. Central Bank of the Republic of Turkey (CBRT) started to actively follow financial stability objective in addition to its mandate of achieving and maintaining price stability in 2010 as a response to the surge of capital flows. For this purpose, CBRT actively used reserve requirements, shifted from symmetric interest rate corridor to asymmetric interest rate corridor, utilized one-week repo rate as policy interest rate, employed Reserve Option Mechanism (ROM) as a novel tool to offer liquidity to the banks and changed operational framework for flexible use of liquidity management. These policies received mixed responses from private sector representatives and prominent politicians harshly criticized CBRT's policies and interest rate decisions. In order to evaluate CBRT policies' effectiveness and impact on the real and banking sector, 20 semi-structured expert interviews are conducted with current and former CBRT officials, real and banking sector representatives and academics with divergent views. Utilizing QDA methodology with NVivo 11 software, all the interviews are transcribed, responses are coded, emerging themes are categorized and results are displayed transparently. Evaluation of central bank policies with QDA reveals different preferences of private sector representatives and illustrates that while Small and Medium Enterprises (SMEs) have been negatively influenced by CBRT policies big holding companies were not affected, banking sector profitability reduced due mainly to macro-prudential policies of Banking Regulation and Supervision Agency (BRSA) not CBRT policies, high commercial interest rates is only one of the financing problems of SMEs and policy interest rate became irrelevant for banks because of over-reliance on liquidity policy. Besides, CBRT's unconventional monetary policies resulted in communication problems with the real and banking sector and also with the ruling AKP government. CBRT's active financial stability pursuit revealed the political coalitions advocating divergent economic policy visions within the ruling AKP government. While some ministers aligned with CBRT's financial stability orientation, others heavily criticized it and advocated a more developmentalist role for CBRT. Thus, this study reveals political and economic consequences of CBRT's active financial stability pursuit with QDA methodology and presents the challenges central banks are facing in adapting to their new roles in national economies.