Editorial

The Banque de France and patronage
Henri Pagès

Focus

Monetary policy without interest rates: Evidence from France’s golden age (1948 to 1973). Using a narrative approach

The quantitative tools are one of the main instruments used in the conduct of monetary policy, especially when the interest rate channel is ineffective. Eric Monnet shows that the French post-war monetary policy from 1948 to 1973 was a paradigmatic example of the use of temporary quantitative credit controls that nearly eliminated the role of interest rates. He proposes a new method to assess the macroeconomic effects of these tools.

Forecasting the business cycle

Laurent Ferrara and Dick van Dijk highlight some characteristics of the severe recession experienced by industrialised countries in 2008 and 2009, mainly (i) the high degree of synchronisation across the countries, (ii) the exceptional magnitude of the cycles, (iii) the specific accelerating role of the financial market.

On the size of the government spending multiplier in the euro area

One of the main issues during the Great Recession was the assessment of fiscal multipliers. However, this concept is not easily identifiable and measurable with accuracy. According to Patrick Fève and Jean-Guillaume Sahuc, omitting the interactions of key ingredients at the estimation stage paves the way for potentially large biases.

Estimating gender differences in access to jobs

The underrepresentation of women in highly-paid positions explains a large part of the gender wage gap. Sébastien Roux, Laurent Gobillon and Dominique Meurs propose a formal way to quantify the difference in accession to each position according to gender.

The role of labour market institutions in shaping global supply chains

Juan Carluccio and Maria Bas ask how the international organisation of firms is affected by bargaining in the labour market. They show that French multinationals are more likely to outsource the production of intermediate inputs to external suppliers when importing from countries with high labour bargaining power.

Do large real exchange rate appreciations matter for growth?

While exchange rate appreciations are generally perceived as having a negative effect on growth by worsening international competitiveness, Matthieu Bussière, Claude Lopez and Cédric Tille argue that this effect depends on the nature of the shock that triggered the appreciation in the first place.

DSGE Report

by Michel Juillard
As a recent external evaluation report1 about European bodies points out, “research is becoming increasingly important as the foundation for the influence of individuals in the group”. On the occasion of the Foundation’s 20th anniversary, it seems fitting to look at how the Banque de France, through its research and sponsorship policy, has managed to strengthen its position by encouraging “cross-fertilisation” between the Bank’s teams and the academic community.

To facilitate the trade-off between institutional priorities and scientific quality, or between internal and external research, the Bank has had recourse to two forms of sponsorship. Through pure sponsorship it has promoted research without conducting it itself and has selflessly encouraged the publication of independently conducted research on relevant topics. Through directed sponsorship it has promoted cooperation between higher education, research and its own teams to harvest the fruit of enhanced synergy. These two levers of sponsorship have fallen within the remits respectively of the Banque de France Foundation for research in monetary, financial and banking economics, created in 1995, and of partnerships set up with several academic centres of excellence from 2008.

The difference is less clear-cut than it might seem. Conferences, seminars and invitations are transversal to both the Foundation and the partnerships. The former has improved its interactivity by periodically organising new meetings and conferences and continues to play a catalyst role in terms of cooperation through its exchange programme with the research community (Visiting Scholars Program). For their part, the partners have undertaken activities to support projects. For example, the Toulouse School of Economics has instituted two prizes for senior and junior researchers in monetary and financial economics. The project tenders, the thesis prize and the young researcher in economics prize on the part of the Foundation, and the series of thematic seminars, tutoring, and Banque de France-TSE prizes on the part of the partnerships, stand out more as “branded products”.

These two approaches have different implications in terms of prestige, governance and risk. The Foundation has the advantage of being particularly visible. Organising a patronage event through the Foundation, such as the Joint French Macro Workshop, which is organised for the benefit of young macroeconomists in collaboration with several top French institutions in this field, will immediately confer a level of visibility and openness to the action that is less immediate under the aegis of the partnerships alone. However, the principle of competition between the best projects, which is at the root of the Foundation’s international reputation, also limits its capacity to support French research in the manner of the NSF in the United States and the ESRC in the United Kingdom, which operate within a national framework.

Less visibility is also sometimes an advantage in terms of cooperation. Brainstorming meetings on research topics, aimed at pre-empting tomorrow’s issues, and bringing together Bank directorates and academic partners to look at foreseeable themes of international meetings up to one year in advance, are useful for guiding research programmes, to the extent that more insight is expected from a network than a single person.

The governance of the Foundation works differently to that of the partnerships: strict but largely open to civil society and public authorities in the case of the Foundation, flexible but focused on their specificities in the case of the partnerships. The management of sponsorship programmes at the Bank reflects this dichotomy, with three annual meetings of the Foundation Board and a review of partnerships by the Executive Committee.

The actions of the Foundation are secure in the long-term, as its capital is protected, but are currently affected by adverse market conditions. While the actions of the partners are regularly submitted for review in the light of the goals set by the governing bodies, the latter have recently strongly reaffirmed their commitment to a policy of increased cooperation with academics. The Foundation is itself a symbol and a guarantor of that commitment. A broad project has formed around the Foundation and the periodically renewed partnerships, which is “essential and consistent with the mission of the Banque de France”, as the Governor concluded in his speech at the Foundation’s 20th anniversary celebration.

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Monetary policy without interest rates: Evidence from France’s golden age (1948 to 1973). Using a narrative approach

Following the global crisis, recent central bank interventions have raised new interest in quantitative tools as instruments of monetary or macroprudential policy. However, despite their widespread use in history, these tools remain largely absent from the standard literature on the effects of monetary policy. Interest rates are usually viewed as the primary instrument of monetary policy and they are supposed to reflect the policy stance. Thus, it is difficult to compare the effectiveness of quantitative controls with the standard results concerning conventional monetary policy.

According to Eric Monnet, the French post-war monetary policy from 1948 to 1973 was a paradigmatic example of the use of temporary quantitative credit controls that nearly eliminated the role of interest rates. He provides a detailed analysis of the way credit controls and other quantitative tools were used in France, and proposes a new method to assess their macroeconomic effects.

Firstly, he demonstrates that an effective way to assess the stance of monetary policy when interest rates are not the primary instrument is to follow a narrative approach that examines archival evidence directly concerning policymakers’ intentions and decisions. There was no reliable quantitative indicator of the French monetary policy stance from 1948 to 1973, as the central bank had to constantly change its instruments to adapt to both financial innovation and the circumvention of previous sets of instruments by the banks.

Secondly, Eric Monnet combines the narrative approach with a vector autoregressive model (VAR) to show that quantitative controls on credit and money had a strong influence on nominal and real variables, but not on interest rates. There was a complete separation between quantities (money and credit) and prices (interest rates). In USA, the narrative approach and the conventional measure provided similar results, whereas, in France, interest rates did not impact inflation and production but quantitative controls did.


Eric Monnet has been an economist at the DCPM-DIACONJ since 2013 and associate lecturer at the École d’économie de Paris and EHESS. His research work focuses on the history of monetary policies, the international monetary system and financial markets in Europe in the 20th century. He is the author of a thesis on French monetary policy from 1945 to 1973, which received the thesis prize from the Economic History Association (2013) and the International Economic History Association (2015).

Forecasting the business cycle

In this article, Laurent Ferrara and Dick van Dijk (Erasmus University) propose an introduction to the special issue of the International Journal of Forecasting, on forecasting the business cycle. In the wake of the banking and financial crisis, almost all industrialised countries experienced a severe economic recession in 2008 and 2009. This recession is often referred to as the “Great Recession” in economic literature. For example, economies like Japan and the United Kingdom suffered annualised contractions in GDP of 5%-10% for periods up to seven consecutive quarters. Only a few countries were spared and most of them were emerging economies such as China.

Laurent Ferrara and Dick van Dijk highlight a number of characteristics of the “Great Recession”, including: (i) the high degree of synchronisation across the main industrialised countries during the recession, (ii) the exceptional magnitude of the cycles, not seen since the Great Depression and quite unexpected after many years of “Great Moderation”, (iii) the specific accelerating role of financial market variables in the business cycle, which are very difficult to incorporate into macroeconomic models, and (iv) evidence of non-linear relationships between key macroeconomic variables.

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The articles in this special issue present and discuss new methods for forecasting the business cycle that take account of these stylised facts. More specifically, the predictability of business cycles is analysed from three different perspectives. First, a strand of literature is devoted to anticipating business cycle turning points. To do so, it is essential to first identify a chronology of turning points, in the same way as the NBER does for the US economy. Researchers can then put forward econometric methods, often based on non-linear regime-switching models, to determine ex post then anticipate in real time cycle peaks and troughs. Second, research can focus on the conditional expectation of the main macroeconomic aggregates over a short-term horizon. In this context, one of the current challenges for research is how to use in effective manner the information contained in a great number of variables, often with different frequencies. Lastly, several articles focus on the law of distribution around the predictor, which makes it possible to assess the risks around the central projection.


On the size of the government spending multiplier in the euro area

During the Great Recession, one of the main debated issues was the evaluation of fiscal multipliers. However, there is not a single figure behind this concept, and much uncertainty surrounds its measurement. Patrick Fève and Jean-Guillaume Sahuc argue that omitting the interactions of key ingredients at the estimation stage, through cross-equation restrictions, paves the way for potentially large upward or downward biases.

The value of the fiscal multiplier depends on many factors such as the underlying model, the nature and duration of the fiscal change, the state of the economy, etc. This leaves the decision maker in trouble.

Patrick Fève and Jean-Guillaume Sahuc provide an explanation for the wide range of estimated government spending multipliers within a dynamic stochastic general equilibrium (DSGE) model of the euro area. They argue that omitting the interactions of key ingredients at the estimation stage implies potentially large biases. To illustrate this, they examine the simultaneous combination of three mechanisms: (i) Edgeworth complementarity between private consumption and government spending (according to Edgeworth, C is a complementary to G if an increase in the supply of G raises the marginal utility of C, under the assumption C constant), (ii) endogeneity of government policy and (iii) general habits in consumption.

Edgeworth complementarity (in the case of Edgeworth complementarity, the utility induced by the use of a good increases following the use of another good) and counter-cyclicality of government expenditures work in opposite directions. While the highest degree of Edgeworth complementarity leads to increase the response of both private consumption and output to a government spending shock, a countercyclical policy acts as an automatic stabilizer. If fiscal policy is wrongly assumed to be exogenous, then the true degree of Edgeworth complementarity to match the same correlation pattern of the data, could be underestimated. Moreover, Edgeworth complementarity and habit persistence in consumption work can also react in opposite directions. A high degree of habit formation tends to reduce the crowding-out effect of public spending on private consumption whereas a moderate degree of Edgeworth complementarity is needed to replicate the characteristics of the data. If an important dimension of habit formation is wrongly omitted at the estimation stage, the degree of Edgeworth complementarity will be over-estimated to compensate the lack of habit formation, leading to an over-estimation of the multiplier.

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Estimates of the impact of an increase in government spending differ greatly, depending on which relevant mechanism is wrongly excluded from the empirical analysis. These findings are corroborated when we assume that the zero lower bound on the nominal interest rate binds, because the multiplier can be easily divided by two when omitting our key features. The downward and upward biases are generally not negligible, especially if the model is used to evaluate fiscal programmes in the euro area.


Jean-Guillaume Sahuc is head of the Financial Economics Research Division.
His research on quantitative macroeconomics and macroeconometrics has been published in journals such as the American Economic Journal: Macroeconomics, The Economic Journal, the Journal of Money, Credit and Banking, the Journal of Macroeconomics, and the International Journal of Central Banking.

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**Estimating gender differences in access to jobs**

Women are underrepresented in highly-paid occupations, and this explains a large part of the gender wage gap. Sébastien Roux, Laurent Gobillon and Dominique Meurs propose a formal way to quantify the difference in access to each position according to gender along the job ladder and whether women have less access to highly-paid jobs than to low-paid jobs, i.e. whether they face a “glass ceiling”.

In this framework, each position is characterised by a specific wage offer to applicants. Some male and female workers apply for the best-paid job. Men and women are characterised by different chances of getting this specific job. The manager of the best-paid job selects a worker among applicants accordingly. The manager of the second best-paid job hires an individual among the remaining workers, and so on. We define an access function as the probability ratio of a female and a male worker getting a job of a given rank.

This access function captures not only labour demand effects, such as gender discrimination in the hiring process for some job positions, but also labour supply effects, such as gender differences in preferences for job positions depending on time constraints.

We estimate this access function on full-time executives aged 40-45 working in French private and public firms and show that women have less access to jobs than men at all ranks in the wage distribution. We find that at the bottom of the wage distribution (5th percentile), the probability of a female worker getting a job is 9% lower than that of a male. The difference in probability is far higher at the top of the wage distribution (95th percentile) and climbs to 50%. Females thus have significantly less access to highly-paid jobs than to low-paid jobs.

We also conduct our analysis for specific industries, as they are more homogeneous labour markets. We consider more specifically banking and insurance, as they are labour intensive, with a large share of women, and they have contrasting wage policies in France. Banks use a rigid job classification inherited from the early 1980s when they belonged to the public sector. By contrast, insurance firms have more flexible wage policies and have less access to highly-paid jobs than to low-paid jobs, i.e. whether they face a “glass ceiling”.


Sébastien Roux is an economic researcher in the Microeconomic Analysis Division. He graduated from Polytechnique and ENSAE, and holds a doctorate in economics from Université Paris-1 Sorbonne, and is an administrator at Insee. Before joining the Banque de France, he was Deputy Director at the Dares. His research work focuses on labour market analysis and applied microeconometrics. He has published articles in Econometrica, Economic Journal, Journal of Labor Economics, Regional Science and Urban Economics and Annales d'économie et de Statistique.
The role of labour market institutions in shaping global supply chains

International trade is increasingly dominated by global supply chains, through which the various production stages – required to produce a good – are located throughout the world. Trade in intermediate inputs has risen steadily in recent decades to become a key feature of the current international trade structure. Multinational firms play a significant role in this process of globalisation of production, accounting for a third of total world trade. What determines the extent of multinational activity in the global economy? How do multinational firms adjust their sourcing strategies to the particularities of the national institutions of the countries they source from?

According to Juan Carluccio and Maria Bas, the labour market institutions are a key variable. They ask how the international organisation of firms is affected by bargaining in the labour market. With detailed data on the import decisions of French multinationals, they show that firms are more likely to outsource the production of intermediate inputs to external suppliers when importing from countries with high worker bargaining power. This effect is stronger for firms operating in capital-intensive industries.

These empirical results are consistent with a theoretical model that combines findings drawn from the literature on wage bargaining under incomplete contracts and the theory of the firm. The underlying theoretical mechanism is the following. The fragmentation of the value chain through outsourcing weakens the workers’ bargaining position, because it limits the amount of revenues that are negotiated with local workers, resulting in lower wages. Since the outsourcing strategy reduces the share of surplus that is appropriated by the workers, it enhances the firm’s incentives to invest. Given that investment creates relatively more value in capital-intensive industries, increases in worker bargaining power are more likely to be conducive to outsourcing in those industries.

The findings by Juan Carluccio and Maria Bas suggest that global firms choose their organisational structure strategically when sourcing intermediate inputs from markets where worker bargaining power is high. Stronger labour market frictions act as a deterrent to the entry of foreign multinationals (holding other things equal).

Do large real exchange rate appreciations matter for growth?

While exchange rate appreciations are generally perceived as having a negative effect on growth by worsening international competitiveness, Matthieu Bussière, Claude Lopez and Cédric Tille argue that this effect depends on the nature of the shock that triggered the appreciation in the first place.

Recently, the noticeable exchange rate movements triggered by diverging monetary policies across advanced economies have reignited the debate and raised concerns about the risk of “currency wars”. However, the impact of exchange rate changes on growth is less straightforward than generally acknowledged as it may depend on the nature of the underlying shock. With a simple theoretical model, Matthieu Bussière, Claude Lopez and Cédric Tille illustrate how an exchange rate appreciation driven by a productivity shock, for instance, may differ from an appreciation emanating from large capital inflows (a “surge” in capital flows, ...
558 “Staying at zero with affine processes: An application to term structure modelling”, Monfort (A.), Pegoraro (E.), Renne (J.-P.), and Rousselet (G.)

557 “Innovation and top income inequality”, Aghion (R.), Akeçigt (U.), Bergeaud (A.), Blundell (R.) and Héroux (D.)

556 “The Implementation of stabilization policy”, Loisel (O.)

555 Profit shifting through transfer pricing: Evidence from French firm level trade data”, Vica (V.)

554 “Asymmetric shocks in a currency union: The role of central bank collateral policy”, Koulischer (E)

553 “Employment effects of foreign direct investment. New evidence from central and eastern European countries”, Jude (C.) and Ioana Pop Silaghi (M.)

552 “Wealth effects on consumption across the wealth distribution: Empirical evidence”, Arrondel (L.), Lamarche (R) and Savignac (E)

551 “Demand learning and firm dynamics: Evidence from exporters”, Berman (N.), Reberyol (V) and Vica (V)

550 For a few dollars more: Reserves and investment. New evidence from central and eastern European countries”, Jude (C.) and Ioana Pop Silaghi (M.)

549 GDP per capita in advanced countries over the 20th century”, Bergeaud (A.), Cetti (G.) and Lecat (R.)

548 Bank risks, monetary shocks and the credit channel in Brazil: Identification and evidence from panel data”, Ramos-Tallada (J.)

547 The stability of short-term interest rates pass-through in the euro area during the financial market and sovereign debt crises”, Avouyi-Dovi (S.), Horný (G.) and Sevestre (P)

546 Austerity plans and tax evasion: Theory and evidence from Greece”, Pappadà (E) and Zylberberg (Y)

545 Cross-border interbank contagion in the European banking sector”, Gabrieli (S.), Sakalova (D.) and Vuillemey (G)

544 Entry barriers to international trade: Product versus firm fixed costs”, Steingress (W)

543 Variable trade costs, composition effects, and the intensive margin of trade”, Berthou (A.) and Fontagné (L.)

542 Specialization patterns in international trade”, Steingress (W)

Focus

which could stem from a change in monetary policy abroad for instance). More specifically, the latter could be more detrimental to growth than the former. The authors illustrate these differences by their empirical results based on a dataset of 68 advanced and emerging countries spanning over 40 years and using a “propensity score matching method”. These findings highlight the necessity of understanding the underlying cause of the appreciation in order to assess its impact.

Moreover, according to the authors, the above model suggests that a policy response is not necessarily warranted, and highly depends on the nature of the underlying shock. For instance, an appreciation triggered by a productivity boom leads to an efficient response, while an appreciation driven by capital inflows does not. In the latter case, firms in the traded sectors face a loss of competitiveness that is not offset by higher productivity, leading to the costly shutdown of some firms. In addition, the relation between appreciation and growth is not symmetric. Specifically, the weak growth observed during an appreciation driven by capital inflows does not imply that a depreciation is symmetrically associated with high growth. Instead, the frictions in the model imply that exchange rate movements driven by capital flows shocks are always associated with low growth as they lead to inefficient firm destruction either in the traded sector (following an appreciation) or the non-traded sector (with a depreciation). To the extent that firm destruction is quicker than firm creation, exchange rate movements may induce negative output movements in the short run. This supports policymakers’ concerns about both capital flows surges and sudden stops.


Matthieu Bussière is Deputy Director in the Directorate Economics and International and European Relations at the Banque de France. He previously headed the International Macroeconomics Division in the same Directorate. Before joining the Banque de France in 2009 he worked at the European Central Bank in Frankfurt, Germany, and visited, for shorter periods, the Federal Reserve Board, the Bank of England, and the International Monetary Fund. Matthieu holds a PhD in Economics from the European University Institute in Florence, Italy, a Master’s in Economics from the University of Cambridge, and is a graduate from “Sciences Po” Paris. His academic research focuses on international macroeconomics, trade, and finance.

Publications first half of 2015


541 “Monetary union with a single currency and imperfect credit market integration”, Bignon (V.), Breton (R.) and Ros (J.-C.).

540 “Can the provision of long-term liquidity help to avoid a credit crunch? Evidence from the Eurosystem’s LTROs”, Andrade (P.), Cahn (C.), Fraisse (H.) and Mésonnier (J.-S.).

539 “Globalization, market structure and the flattening of the Phillips curve”, Guilloux-Nefussi (S.).

538 “The elasticity of poverty with respect to sectoral growth in Africa”, Berardi (N.) and Marzo (E).

537 “On the size of the government spending multiplier in the Euro area”, Féve (P.) and Sahuc (J.-G.).

536 “Labour force participation and tax-benefit systems: A cross-country comparative perspective”, Galuščák (K.) and Kátay (G.).

535 “Precautionary saving and aggregate demand”, Challe (E.), Matheron (J.), Ragot (X.) and Rubio-Ramirez (J. F.).

534 “Why financial advice cannot substitute for financial literacy?”, Debbich (M.).

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Dynare

Dynare is a software platform for solving, simulating and estimating rational expectation models, which are notably used in monetary policy analysis. It is open source, and development work has been carried out by the CEPREMAP for the past two decades and, more recently, by the Banque de France. Dynare is widely used by central banks, international financial institutions and universities.

The Dynare Summer School is an annual training course on how to use the software. Designed both for beginners and for more experienced users, it provides a basic introduction to the platform as well as covering more advanced topics. The course is mainly targeted at economists from central banks, and more generally at researchers from the academic world. The 2015 Dynare Summer School took place from June 8 to June 12, 2015 at the Banque de France. Around 40 economists took part, attending presentations on how to operate the software and on the different techniques it uses. Participants were also invited to attend dedicated workshops where they could try out practical exercises on their own laptops. The special guests at the 2015 edition was Luca Guerrieri, Assistant Director at the Federal Reserve Board. He gave a presentation on a new toolbox designed for Dynare which can solve models with constraints such as the zero lower bound (ZLB) for nominal interest rates, or indebtedness constraints. The tool should be integrated into Dynare in the near future.

Michel Juillard is coordinator of the DSGE network at the Banque de France.

Acknowledgement of discussants

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