News Release

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THE ROLE OF MONEY IN MONETARY POLICY: WHY DO THE FED AND ECB SEE IT SO DIFFERENTLY?

The Federal Reserve and the European Central Bank (ECB) view the role of money in monetary policy very differently. For the Federal Reserve, the monetary aggregates are indicator variables like a myriad of others that are monitored for clues about the outlook for economic activity and inflation. For the ECB, the monetary aggregates have special status and their behavior is given considerable weight in policy deliberations.

George A. Kahn, vice president and economist at the Federal Reserve Bank of Kansas City, and Scott Benolkin, formerly an assistant economist at the Bank, explore these differences in “The Role of Money in Monetary Policy: Why Do the Fed and ECB See It So Differently?” The article appears in the third quarter edition of the Bank's *Economic Review*.

The authors examine the way monetary aggregates are currently used by the two organizations. While the money supply plays no special role in the Fed's monetary policy making, it is one of two “pillars” on which policy is based at the ECB.

The article concludes that the Federal Reserve and ECB differ in their approach to the monetary aggregates for two main reasons. First, their institutional histories are different. And, second, as an empirical matter, monetary aggregates have been more closely associated with inflation in the Euro area than in theUnited States.

The article is available on the Bank's Web site at www.KansasCityFed.org.

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