

Discussion of Brad DeLong: “Did Macroeconomic Policy Play a Different Role in the (Post-2009) Recovery?”

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Introduction

- ▶ I do not understand the title of the paper: “Did Macroeconomic Policy Play a Different Role in the (Post-2009) Recovery?”
- ▶ Different role from what? From its role in 2009? From its role before 2008?
- ▶ Gives me flexibility to interpret as I want ☺:
- ▶ *Evolution in the thinking and the implementation of macroeconomic policy since 2008.*
- ▶ Four phases: Pre-2008, 2008-2009, 2010-2015, now, and the future (both forecast and normative)

Pre-2008. The preeminence of monetary policy

- ▶ Monetary policy:
 - ▶ Inflation targeting. Taylor rule.
 - ▶ Unlikely to be used, but available: LOL. Thought as fully separate from first.
- ▶ No use of fiscal policy, except automatic stabilizers
- ▶ Micro pru and financial regulation, no macro pru.

- ▶ Crisis first perceived (from 2007) as a housing crisis. Lower policy rate
- ▶ Coinciding initially with high oil prices. Higher policy rate (increase in October 2008)

From 2008 to 2009; All hands on deck

- ▶ Rediscovery of what a financial crisis is. The importance of plumbing.
- ▶ Monetary policy:
 - ▶ Interest rate down to zero
 - ▶ Provision of liquidity much beyond traditional LOL. QE 1: (nov 2008 to june 2010.)
- ▶ Macro prudential. Stress tests. Raising capital ratios. Denominator/numera
- ▶ Fiscal expansion.
 - ▶ Partly automatic stabilizers/partly more.
 - ▶ Increase in structural deficit for AEs by +2% from 2008 to 2009 (Actual +5.3%)

From 2009 to 2015. More monetary, less fiscal

- ▶ Cold feet on fiscal.
 - ▶ Why? Fast increasing debt level. The 60% number. (Reinhart Rogoff, Maastricht). In AEs, increase from 48% in 2008 to 70% in 2012.
 - ▶ Decrease in structural def from 6.4% in 2010 to 2.5% in 2015, with rough stabilization of debt around 70%
- ▶ By default, further exploration of non conventional money. Through decrease in spreads.
 - ▶ QE now seen as monetary policy than LOL liquidity provision.
 - ▶ Frozen inflation expectations. Actions needed, not just words.
- ▶ Much talk, but limited action on macro pru: Some LTVs; more at the BOE.
- ▶ Financial regulation: Dodd-Frank, Basel II, Basel III.

Since 2015. Second thoughts

- ▶ A new environment. Secular stagnation may be for real
 - ▶ Lower potential growth
 - ▶ Low neutral rates
- ▶ Second thoughts on unconventional monetary policy
 - ▶ Reaching perceived limits. Risks, distortions, distributional effects
 - ▶ Low for very long may be dangerous: Insurance companies, pension funds
- ▶ By default: A second look at fiscal.
 - ▶ In 2016, (small) increase in AE structural deficit.
 - ▶ Optimal debt policy if $MPK > g > r$. Public investment?
- ▶ Financial regulation? Has it gone too far? Business model of banks?

Looking forward

- ▶ Perception of a new tougher normal. Low growth, low neutral rate
- ▶ Monetary policy probably changed forever.
 - ▶ Should CB affect level and spreads? Rate and risk/liquidity spreads. Size of balance sheet.
 - ▶ Higher inflation target versus less cash.
 - ▶ Start of a discussion about scope for policy in next recession
- ▶ Fiscal. Little action, but serious discussion starting.
 - ▶ My own sense (hope?). More use of DSAs. Dynamic scoring.
 - ▶ Golden rule?
 - ▶ Fuzzy limits fiscal/money? Helicopter money. Probably not healthy.
- ▶ Macro prudential versus regulation. How much of one, and how much of the other?