

Comments on “Monetary Policy Alternatives at the ZLB: Lessons from the 1930s U.S.”

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Great Depression (Aug 1929 - March 1933):
CPI ↓ 29.3%

Great Recession (Dec 2007 - June 2009):
CPI ↑ 1.6%

If deflation was anticipated, means high ex ante real interest rates

==> demand depressed through New Keynesian IS Curve (1)

(consumption Euler equation)

If deflation was unanticipated, means added
ex post real debt burden

==> demand depressed by income- or
debt-constrained households

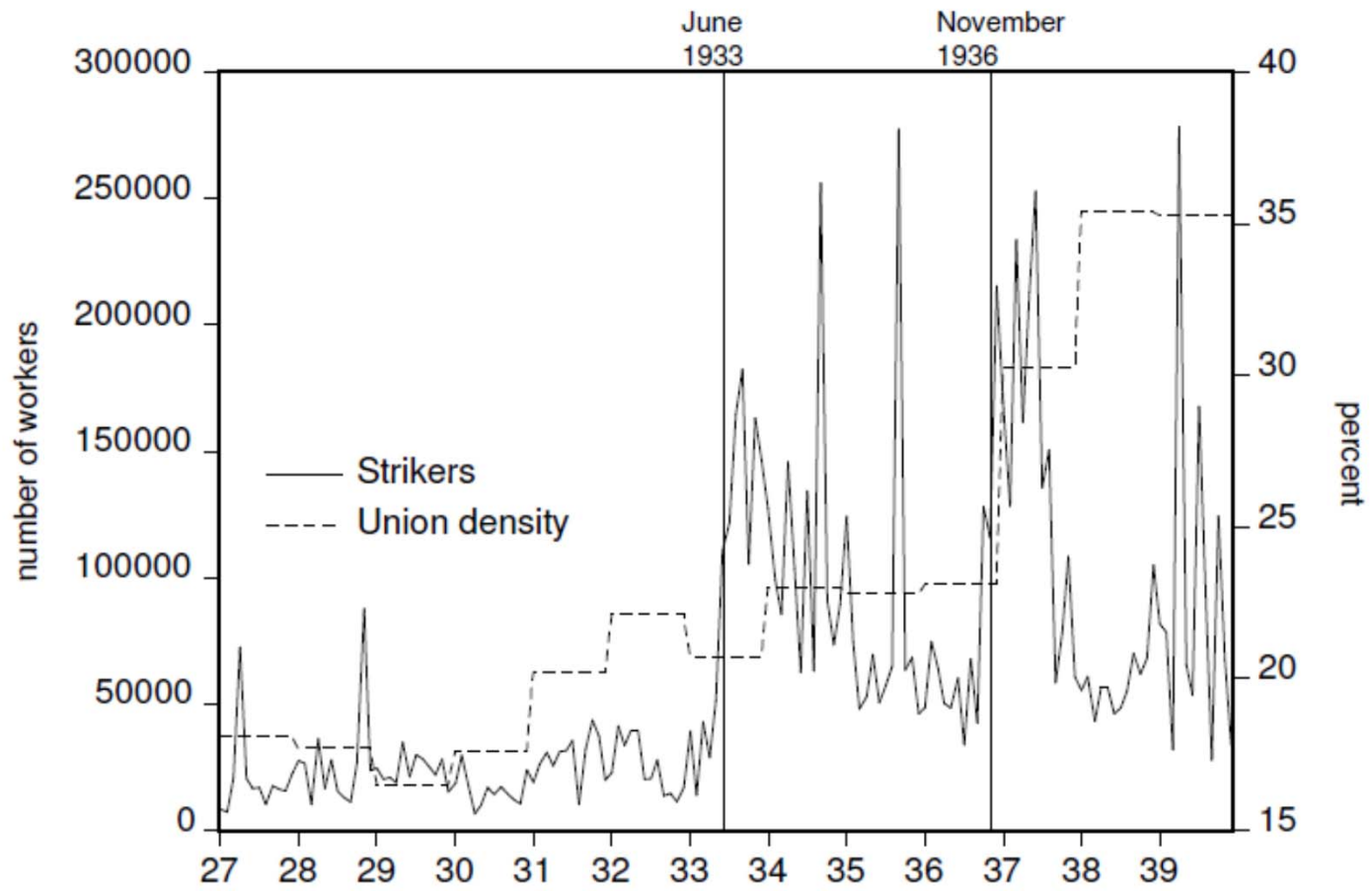
(need modification of equation (1), e.g.,
Wieland (2013))

Was deflation during the Great Depression anticipated?

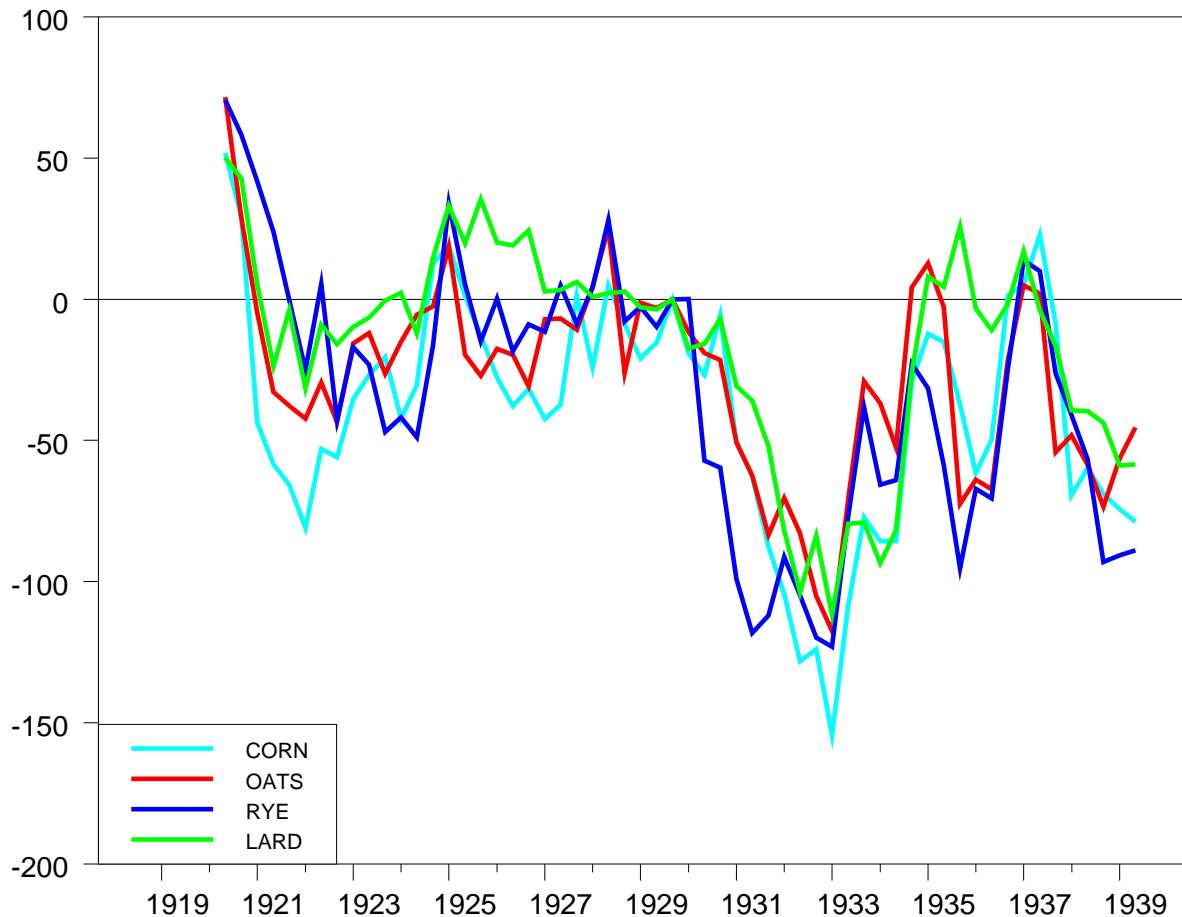
- time series models-- yes after 1930 (Cecchetti, AER, 1992)
- futures prices-- partially after 1930 (Hamilton, AER, 1992)
- contemporary press accounts-- yes (Nelson, Res. Econ. History, 1991; Romer & Romer, 2013)

Part 1 of Hanes paper-- was the inflation of 1934-1937 anticipated?

- if yes, forward guidance mattered and operated through lower ex ante real interest rates

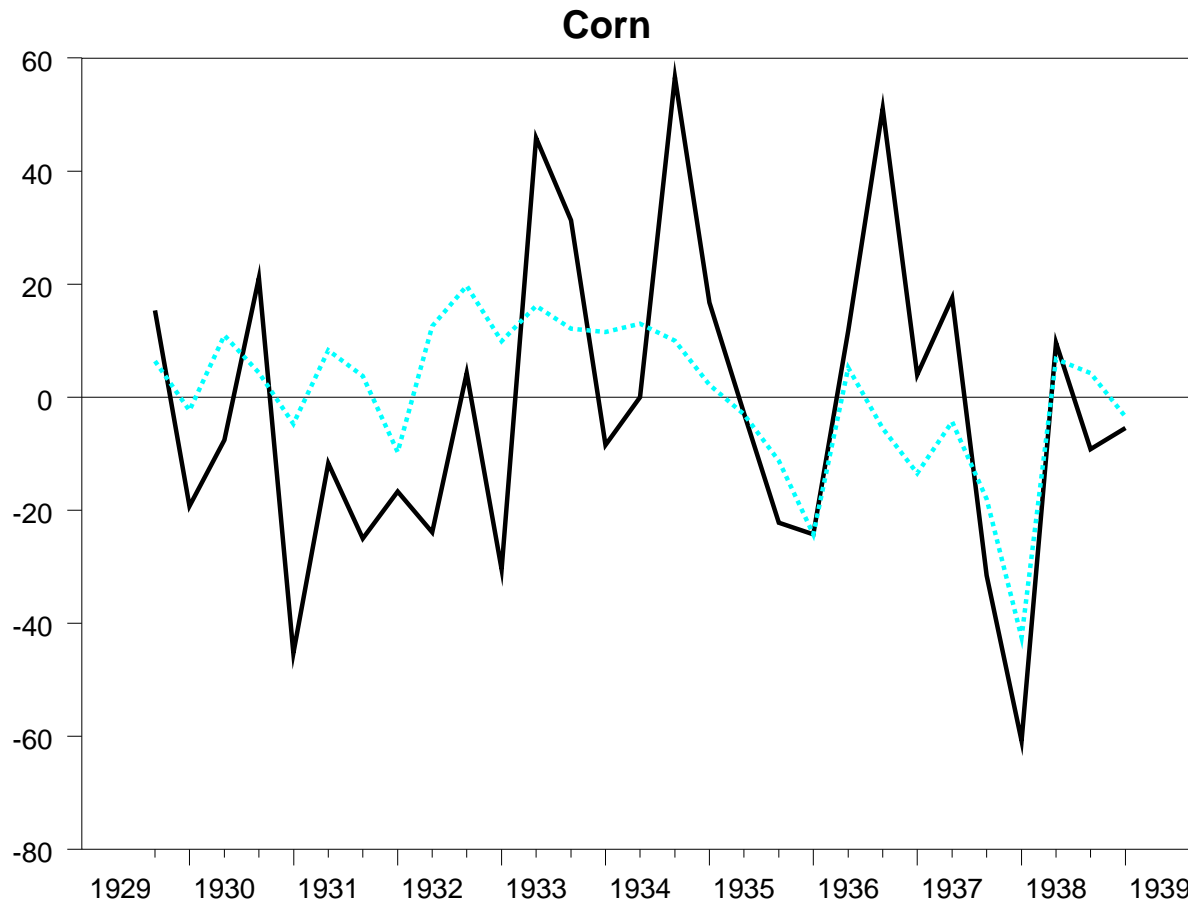


Spot prices of 4 agricultural commodities, 1919-1939



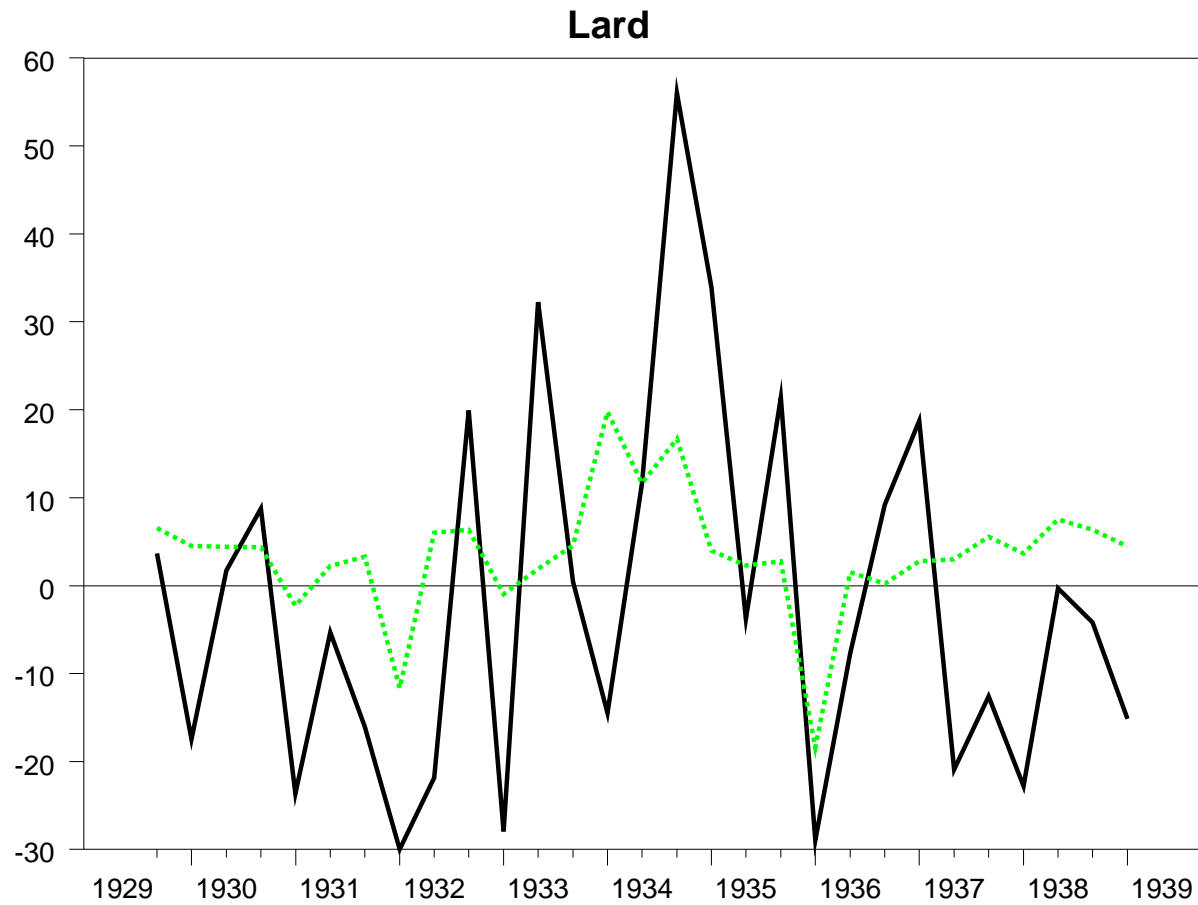
Triannual data, 100 times natural log with $1929:3 = 0$. Data source: Hamilton (1992)

Actual and expected 4-month % change in corn price, 1929-1939

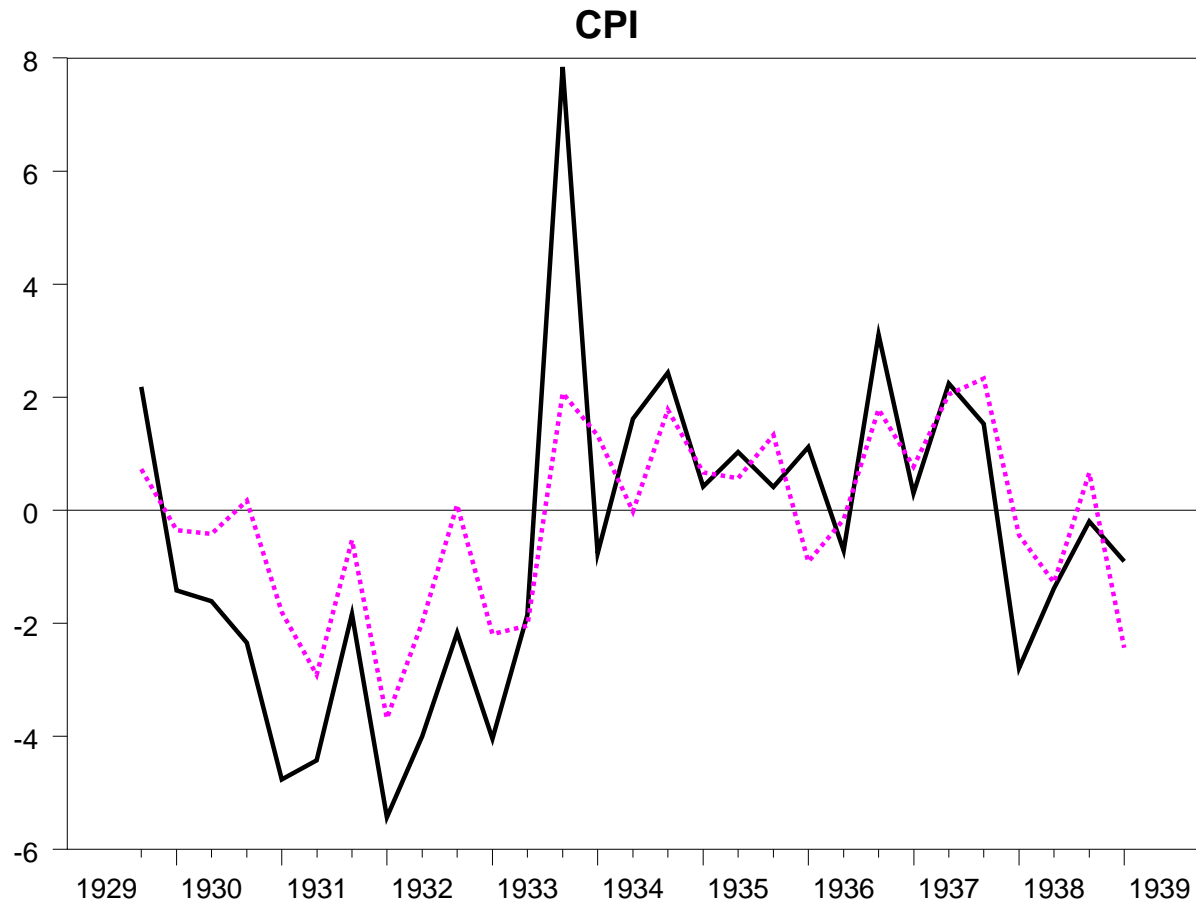


100 times log change; values used to construct dashed line were known 4 months prior to date

Actual and expected 4-month % change in lard price, 1929-1939



Actual and expected 4-month % change in CPI, 1929-1939



Even if not anticipated, reflation would help if problem was real debt overhang

Hanes f.n. 6:

In his second “fireside chat” on May 7th, Roosevelt said “The Administration has the definite objective of raising commodity prices to such an extent that those who have borrowed money will, on average, be able to repay that money in the same kind of dollar which they borrowed.”

- Second part of Hanes paper: quantitative easing did make a difference in the 1930s
- Hanes' observation: short-term changes in Treasury's gold holdings and operating balance were not sterilized-- produced big changes in high-powered money

Were changes in Treasury balance purely monetary?

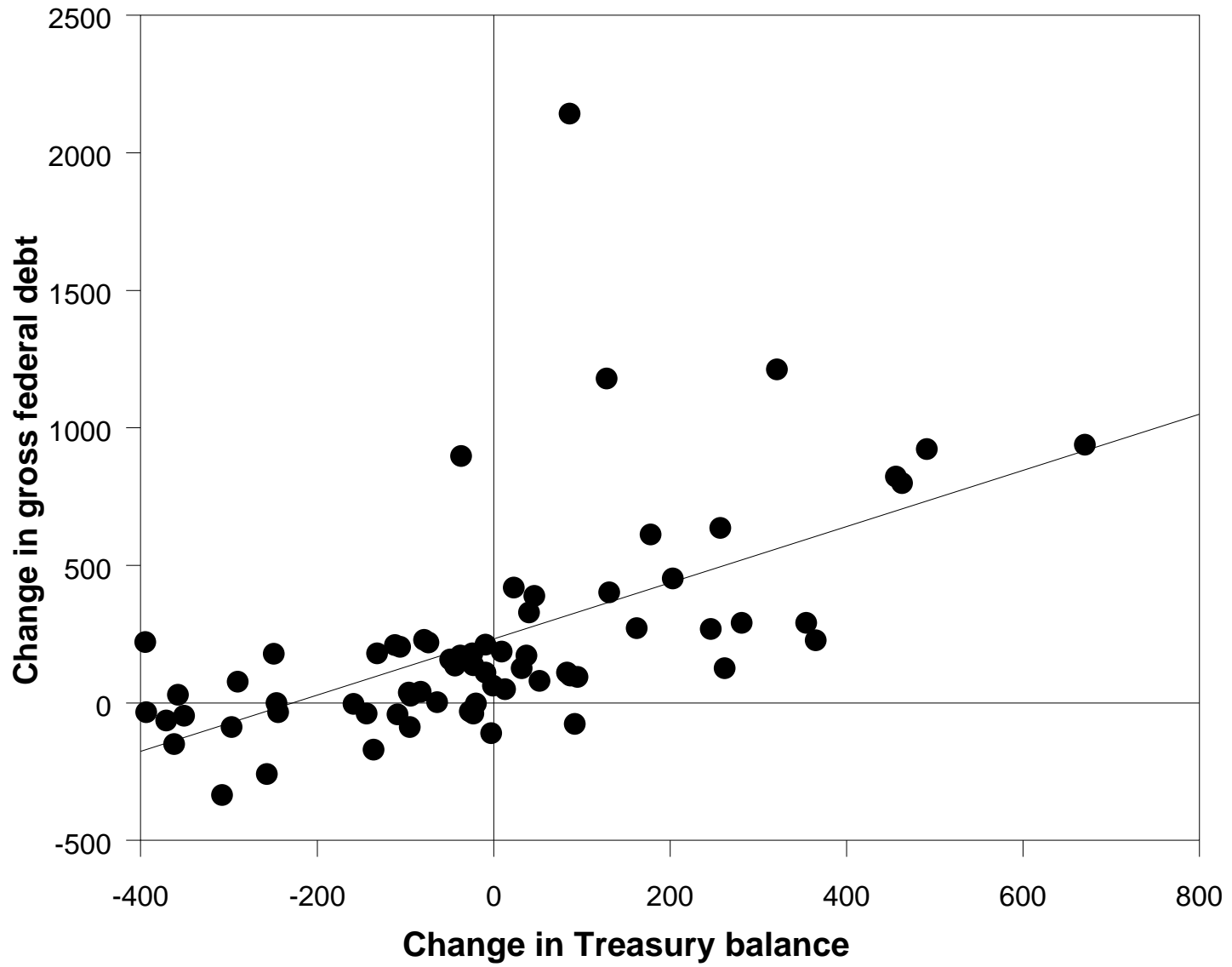
ΔT_t = change in Treasury balance (BMS Table 102)

ΔB_t = change in gross Treasury debt (Table 150)

monthly April 1934 - Dec 1939

(t stats in parens)

$$\Delta B_t = \underset{(5.99)}{232.4} + \underset{(5.89)}{1.02} \Delta T_t + e_t \quad R^2 = 0.33$$



- Treasury balance may explain interest rate not because of its effect on HPM but instead because of its effect on supply of Treasury securities
- Useful new data source to familiar 2008 event-study dates