

Discussion of “Monetary Policy Alternatives at the Zero Lower Bound: Lessons from the 1930s U.S.”

by Christopher Hanes

Discussion by Gary Richardson

Synopsis

Two good papers packed into one.

1. Assesses Roosevelt's devaluation and re-inflation. Analogy to exiting liquidity traps by raising inflationary expectations.
2. Assesses asset purchase programs of mid-1930s. Analogy to large-scale asset purchase programs.

Assessment

- Paper 1 (Devaluation and Reflation)
 - Insightful. Cogent.
 - Novel finding.
 - Inconsistent with my priors. So, I took time to determine whether I should update my priors, and suggest modifications that would increase updating.
- Paper 2 (Large-scale asset purchases)
 - Good idea and execution, worth expanding.
 - Consistent with literature and my priors.

Hanes' Insight on Reflation

- Roosevelt administration simultaneously adopted numerous policies that influenced macroeconomic aggregates such as prices, employment, and output
- Simultaneity raises a fundamental question of identification. How to determine a policy's impact when multiple policies move together?

Monetary and Exchange Rate Policies

One Focus of the Paper

- Emergency Banking Relief Act, March 1934
 - Suspend currency convertibility, nationalize gold
- Agricultural Adjustment Act (AAA), May 1933
 - Thomas Amendment authorized president to issue paper money and determine the gold or silver weight of the dollar.
- Gold Reserve Act, January 1934
 - Restored gold standard, dollar devalued

Why Emphasize Labor Organization and Countervailing Power?

NRA codes have many dimensions

- Output shares and quotas
- Output prices
- Input shares, quotas, and sometimes pricing

Timing and direction of labor policies imperfectly matched to trends of interest and effected a narrow economic sector.

Additional Policies Complicating Identification

- Agricultural Management and Rural Development
- Fiscal Expansion/Emergency Relief – RFC, CCC, FERA, WPA, PWA, etc.
- Resuscitation of Home Lending Industry: Home Owners' Loan Act June 1933, National Housing Act June 1934, National Housing Act Amendments June 1938
- Regulation and Reform of Financial Markets and Corporate Governance: Bankruptcy, Securities Act May 1933, Securities Exchange Act March 1934
- Federal Reserve Reorganization and Leadership Changes

Additional Additional Policies

Bank Resuscitation and Recapitalization

- Hoover Administration
 - Reconstruction Finance Corporation Act, Jan 1932
 - Banking Act of 1932, Feb 1932
 - Federal Home Loan Bank Act, July 1932
- Roosevelt Administration
 - Bank Holiday, March 1933, Executive Order
 - Emergency Banking Relief Act, March 1933
 - Banking Act of 1933 (Glass-Steagall), June 1933
 - Banking Act of 1935, August 1935
- Impact
 - Increase money multiplier => inflation and interest rates
 - Increase financial intermediation

Standard Solutions to Identification

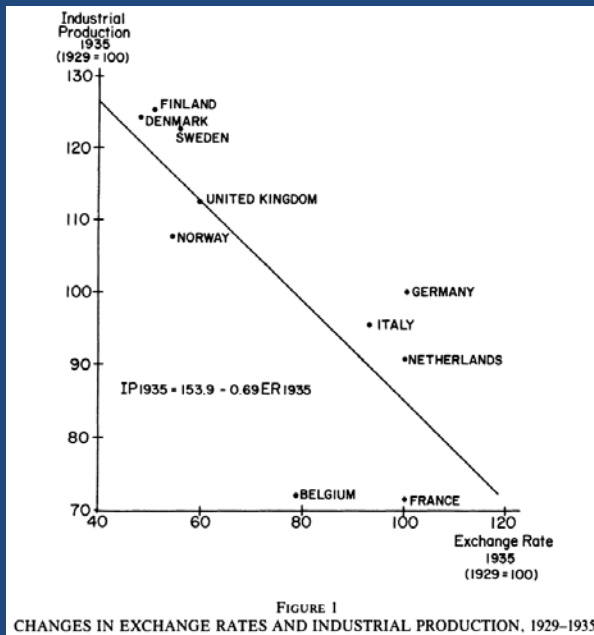
- International comparisons: Compare economies exposed (and not exposed) to policy of interest
- Microeconomic panels: Analyze response of regions, industries, firms, or individuals whose exposure to policies varied.
- Structure: Use economic theory (along with estimation or calibration) to determine relative impact of policies

Why I have strong priors.

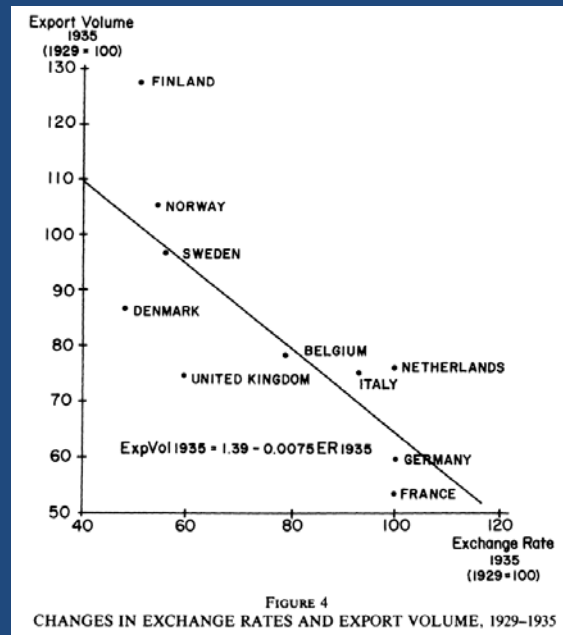
- Scholars have tried all identification approaches
- Most scholars find that devaluation and reflation were keys to recovery.
- Most scholars find that industrial policies had little influence or delayed recovery.

Devaluation and Recovery International Evidence

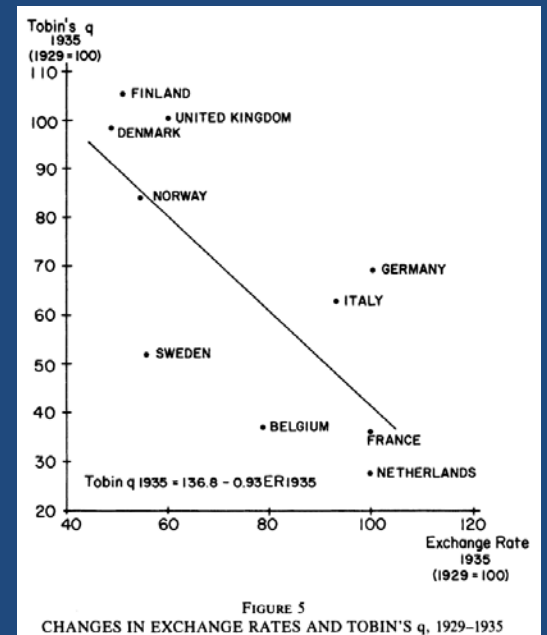
Production



Exports



Investment



Eichengreen and Sachs 1985

Evidence from United States

- Models – Early Generation – Focus on Money
 - Romer 1992
 - Cecchetti 1988
- Models – Recent Vintage – Comparisons of Shocks and Policies
 - Christiano, Motto, and Rostango 2003
 - Cole and Ohanian 2004
 - Eggerton 2008, 2012

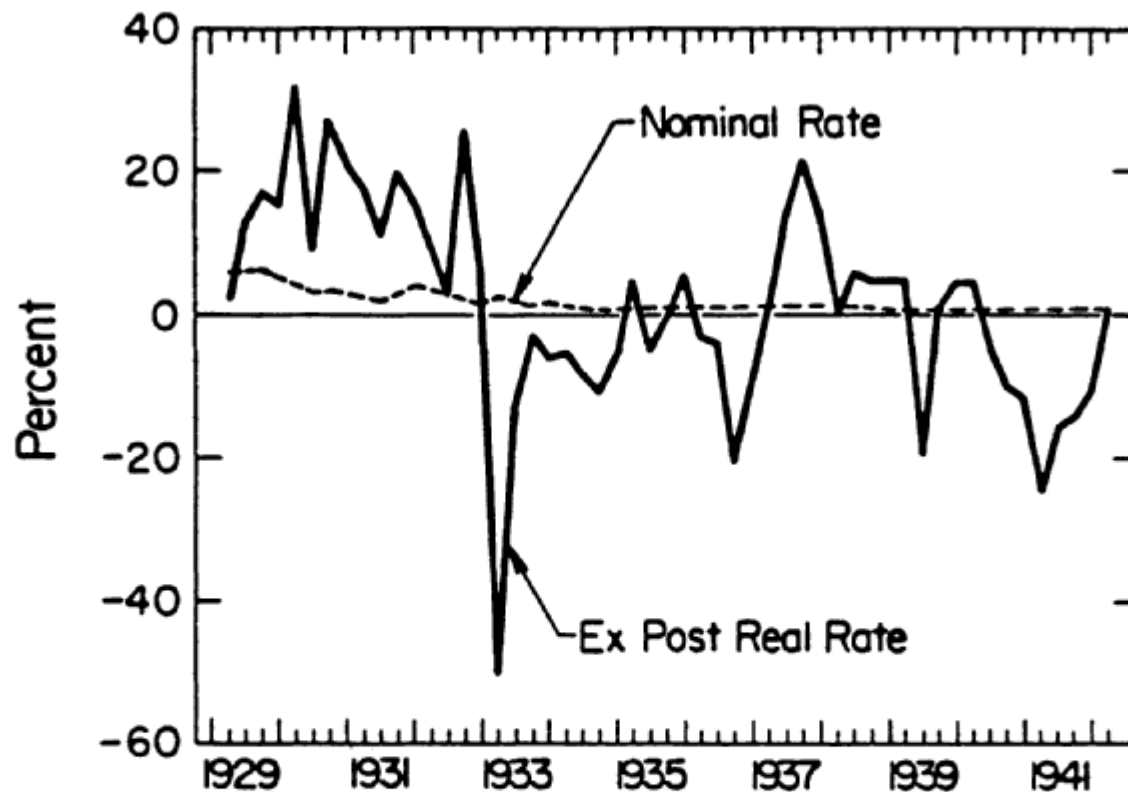


FIGURE 7

NOMINAL AND EX POST REAL COMMERCIAL PAPER RATES, 1929–1942

Note: The data are quarterly observations.

Sources: The commercial paper rate data are from the U.S. Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics*, 1943, pp. 448–51, and 1976, p. 674. The calculation of the ex post real rate is described in the text.

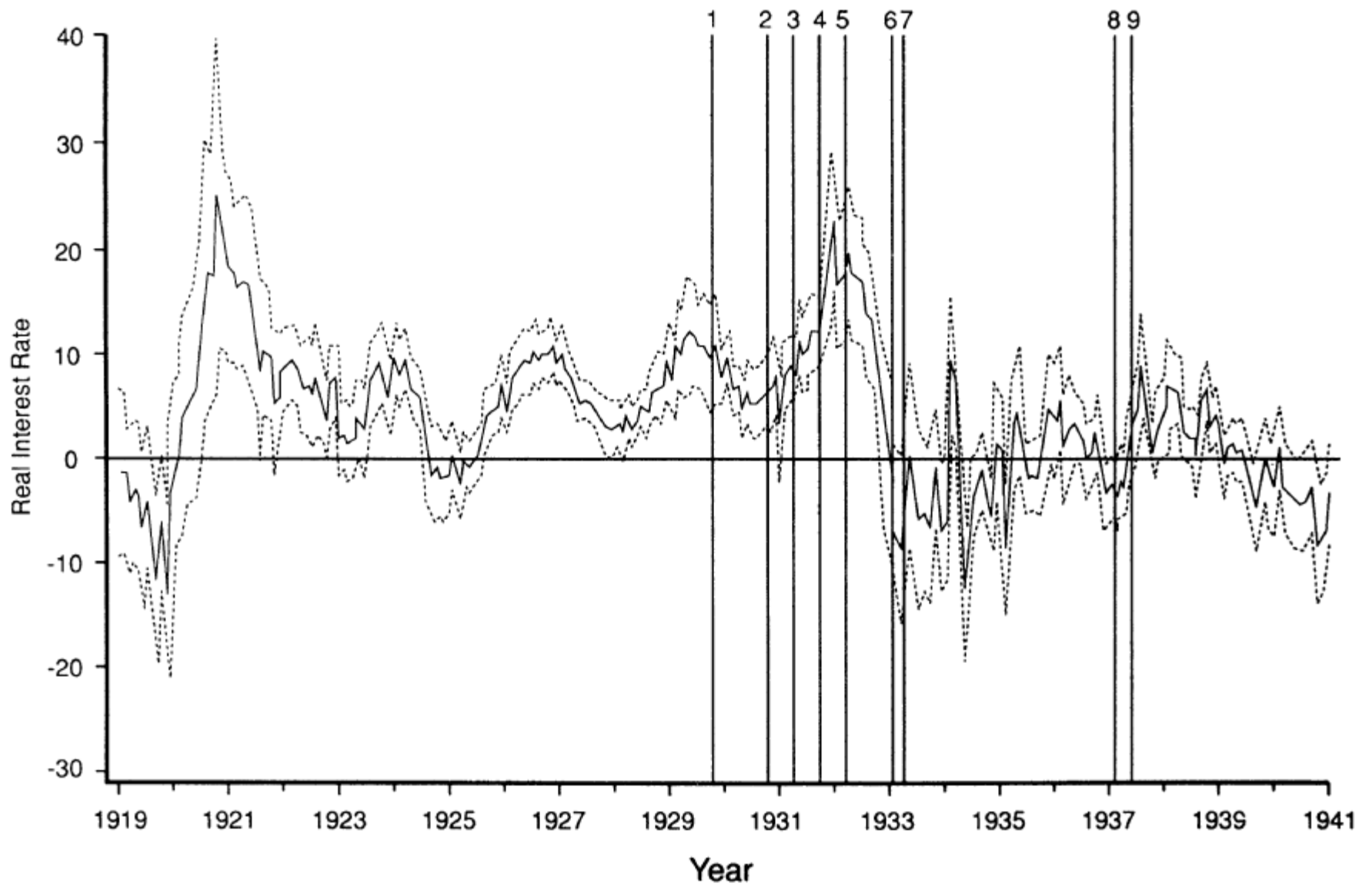


FIGURE 4. *EX ANTE* REAL INTEREST RATE, 1919-1940 (MONTHLY AT AN ANNUAL RATE, THREE-MONTH HORIZON, WITH 95-PERCENT CONFIDENCE BANDS)

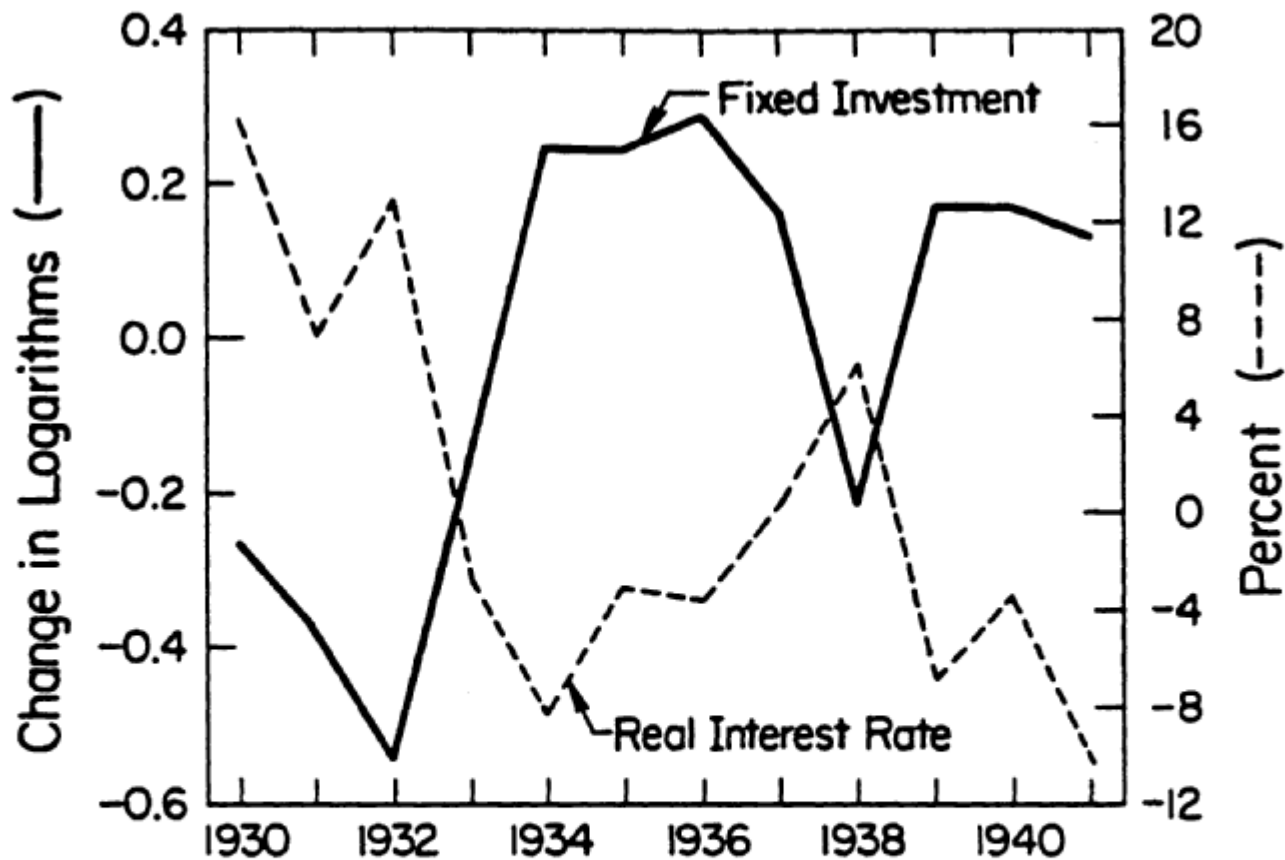


FIGURE 9

REAL FIXED INVESTMENT AND EX ANTE REAL RATES, 1930-1941

Sources: Data on real fixed investment are from the U.S. Bureau of Economic Analysis, *National Income and Product Accounts*, table 1.2, p. 6. The estimation of ex ante real rates is described in the text.

Recent Models' Common Component

Influence of Real Wages

$$W_{real} = \frac{W_{nominal}}{P}$$

- Devaluation => increase P , reduce W_{real}
- NRA codes => increase $W_{nominal}$, raised W_{real}

Real Wages During 1930s

$$W_{real} = \frac{W_{nominal}}{P}$$

- 1929 through 1933
 - Real wages rose
 - Due to deflation and sticky nominal wages
- From 1933 through 1936
 - Real wages fell
 - Despite some increases in nominal wages
- Devaluation dominated NRA

Hanes' Uses Structure

Hanes' determines impact of devaluation by

- 1) Constructing a macroeconomic model
- 2) Comparing impact of devaluation and NRA codes within the model

Results

- 1) Consistent with monetary expansion
- 2) When NRA added to story
 - A. NRA mirrors monetary expansion
 - B. Monetary expansion's impact minimized

Result Novel

But Not Yet Completely Convincing

1. Difficult to determine why this result differs from other models with opposite result
2. Does not explain international evidence
3. Confusing policy implications

Suggestions

1. Diagnostics for All Macro Aggregates
2. Explicit Comparisons to Alternative Models
3. Clarify Policy Implications