

Econ 1499: Low Interest Rates, Secular Stagnation, and Monetary Policy

With real interest rates negative for nearly a decade and nominal interest rates close to zero throughout the industrial world, we are in a new era for macroeconomic policy making. This seminar course will focus on the reasons for low real rates, their impact on growth, inflation, inequality and financial stability, and their implications for macroeconomic policy.

The focus of the class will be on student research papers. Students will be expected to choose a topic related to the course theme and write 25- to 30-page original research papers developing, applying and testing relevant economic theory. Students will work closely with one of the course instructors and an economics PhD student on their papers.

Examples of topic areas for papers might include: The role of risk premiums vs. savings-investment gaps in explaining interest rate fluctuations; the influence of social insurance on aggregate demand; Ricardian equivalence and the impact of fiscal policy in raising long run demand; the implications of low rates for target returns on institutional portfolios, financial stability, and creative destruction; saving gluts and current account surpluses; the risks of destabilizing deflation; and lessons from the Japanese experience.

Only students with significant exposure to advanced undergraduate courses in economics and statistical and quantitative work should consider this class. This class is potentially open to seniors writing theses on related topics. Admission is by permission of the instructors. Interested students should send a transcript and a 250-word statement of why they want to take the class to lhs@lawrencesummers.com.

Course Instructors:

Lawrence Summers

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Secular stagnation:

[Backhouse, Roger and Mauro Boianovsky. 2016. "Secular Stagnation: The History of a Macroeconomic Heresy." *European Journal of the History of Economic Thought*, 23 \(6\).](#)

[Bernanke, Ben S. "Why Are Interest Rates So Low, Part 2: Secular Stagnation." Brookings Institution, March 31 2015.](#)

[Caballero, Ricardo and Emmanuel Farhi. 2014. "On the Role of Safe Asset Shortages in Secular Stagnation." August 11, 2014.](#)

[Eggertsson, Gauti B., Neil R. Mehrotra, and Lawrence H. Summers. 2016. "Secular Stagnation in the Open Economy." *American Economic Review* 106 \(5\).](#)

[Gordon, Robert J. 2015. "Secular Stagnation A Supply-Side View." *American Economic Review: Papers and Proceedings*, 105 \(5\): 54–59.](#)

[Rogoff, Kenneth. "Debt Supercycle, Not Secular Stagnation." *VoxEU CEPR*, April 22 2015.](#)

[Summers, Lawrence H. "Secular Stagnation and Macroeconomic Policy." *IMF Economic Review* 66.2 \(June 2018\): 226–250.](#)

[Summers, Lawrence H. "On Secular Stagnation: Larry Summers Responds to Ben Bernanke." Brookings Institution, April 1 2015.](#)

[Teulings, Coen and Richard Baldwin \(eds.\). 2014. *Secular Stagnation: Facts, Causes, and Cures*. VoxEU CEPR. August 15, 2014.](#)

Implications for monetary policy:

[Bernanke, Ben S. "The Zero Lower Bound on Interest Rates: How Should the Fed Respond?," Brookings Institution, April 13 2017.](#)

[Bernanke, Ben S. "The Fed's Shifting Perspective on the Economy and Its Implications for Monetary Policy." Brookings Institution, August 8 2016.](#)

[Bernanke, Ben S. "The New Tools of Monetary Policy," American Economic Association Presidential Address, January 4 2020.](#)

[Eberly, Janice C., James H. Stock, and Jonathan H. Wright. "The Federal Reserve's Current Framework for Monetary Policy: A Review and Assessment." *NBER Working Paper Series*, June 2019.](#)

[Kiley, Michael T. and John M. Roberts. "Monetary Policy in a Low Interest Rate World". Brookings Papers on Economic Activity, Spring 2017.](#)

Lilley, Andrew and Kenneth Rogoff. May 19 2020. "[The Case for Implementing Effective Negative Interest Rate Policy](#)." In Strategies for Monetary Policy. Stanford, California: Hoover Institution Press.

Rogoff, Kenneth. 2017. "Dealing with Monetary Paralysis at the Zero Bound," [Journal of Economic Perspectives](#), 31 (3): 47-66.

Summers, Lawrence H. "Why the Fed Needs a New Monetary Policy Framework," [Brookings Institution](#), June 7 2018.

Yellen, Janet L. "The Federal Reserve's Monetary Policy Toolkit: Past, Present, and Future." [August 26, 2016](#).

Implications for fiscal policy:

Blanchard, Olivier. 2019. "Public Debt and Low Interest Rates." [American Economic Review](#), 109 (4): 1197-1229.

Blanchard, Olivier J. and Lawrence H. Summers, "Automatic Stabilizers in a Low-Rate Environment," [Peterson Institute for International Economics](#), February 2020.

Furman, Jason and Lawrence H. Summers. "Who's Afraid of Budget Deficits?." [Foreign Affairs](#), March/April 2019.

Rachel, Lukasz and Lawrence H. Summers. "On Falling Neutral Real Rates, Fiscal Policy, and the Risk of Secular Stagnation." [Brookings Papers on Economic Activity](#), Spring 2019.

Rogoff, Kenneth. "Falling Real Interest Rates, Rising Debt: A Free Lunch?." February 9 2020.

Japan:

Blanchard, Olivier and Takeshi Tashiro, "Fiscal Policy Options for Japan." [Peterson Institute for International Economics](#). May 2019.

Blanchard, Olivier and Takeshi Tashiro, "Rethinking Fiscal Policy in Japan." [Peterson Institute for International Economics](#). October 7, 2019.

Dominguez, Kathryn M., Kenneth S. Rogoff, and Paul R. Krugman. 1998. "It's Baaack: Japan's Slump and the Return of the Liquidity Trap." [Brookings Papers on Economic Activity](#) 1998, No. 2.

Kirkegaard, Jacob Funk. "Yes, We Are Probably All Japanese Now." [Peterson Institute for International Economics](#). September 23, 2019.

Great Depression:

Eggertsson, Gauti B. 2008. "Great Expectations and the End of the Depression." *American Economic Review* 2008, 98(4): 1476–1516.

Higgs, Robert. 1992. "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s." *The Journal of Economic History*, 52(1): 41–60.

Romer, Christina D. 1992. "What Ended the Great Depression?". *The Journal of Economic History*, 52 (4): 757–784.

Potential harms of low rates:

[Banerjee, Ryan and Boris Hofmann. "The Rise of Zombie Firms: Causes and Consequences." *BIS Quarterly Review*, September 2018.](#)

[Caballero, Ricardo J., Takeo Hoshi, and Anil K. Kashyap. 2018. "Zombie Lending and Depressed Restructuring in Japan," *American Economic Review*, 98 \(5\): 1943–1977.](#)

[Cecchetti, Stephen G. and Enisse Kharroubi, "Why Does Financial Sector Growth Crowd Out Real Economic Growth?", *BIS Working Papers*, February 2015.](#)

Gopinath, Gita, et al., 2017. "Capital Allocation and Productivity in South Europe." *The Quarterly Journal of Economics*, 132 (4): 1915–1967.

[Hannoun, Hervé. 2015. "Ultra-Low or Negative Interest Rates: What They Mean for Financial Stability and Growth"](#)

Inflation:

[Blanchard, Olivier J. "High Inflation is Unlikely but Not Impossible in Advanced Economies," Peterson Institute for International Economics, April 24, 2020.](#)

Natural rate hypothesis:

[Dupraz, Stephanie, Emi Nakamura, and Jón Steinsson, "A Plucking Model of Business Cycles," June 15, 2020.](#)

[Palley, Thomas I. 2019. "The Fallacy of the Natural Rate of Interest and Zero Lower Bound Economics: Why Negative Interest Rates May Not Remedy Keynesian Unemployment."](#)

Rethinking macro:

[Blanchard, Olivier J. and Lawrence H. Summers. "Rethinking Stabilization Policy: Evolution or Revolution?", *NBER Working Papers*, December 2017.](#)

[King, Mervyn. 2019. "Per Jacobsson Lecture: The World Turned Upside Down: Economic Policy in Turbulent Times." October 19, 2019.](#)

Hobson, John A. 1902. *Imperialism: A Study*. New York, James Pott & Co.

Kelton, Stephanie. 2020. *The Deficit Myth: Modern Monetary Theory and the Birth of the People's Economy*.

[Mankiw, N. Gregory. "A Skeptic's Guide to Modern Monetary Theory." December 12, 2019.](#)