

Econ 1499: Macroeconomic Policy in the Post-COVID Era

With real interest rates negative for nearly a decade and nominal interest rates close to zero, and fiscal deficits and debt-to-GDP ratios at unprecedented levels, we are in a new era for macroeconomic policy making. This seminar course will focus on macroeconomic policy issues posed by secularly low real interest rates (secular stagnation?), COVID-19, and government debt accumulation. The focus will be on the application of rigorous macroeconomic analysis to policymaking.

The objective of the class is to expose students to the kind of thinking and work done by practicing macroeconomists. The centerpiece of the class will be student research papers, 25- to 30-pages, on macroeconomic topics, developing, applying, or testing relevant economic theory. Students will work closely with one of the course instructors and an economics PhD student on their papers. During seminar meetings, students will present and lead discussions of major recent research papers, and present their ongoing work.

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.

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 by August 26th. This course is oriented towards students with a serious interest in economic and financial policymaking and research. Some exposure to quantitative material is appropriate for students taking this class, but there are no specific prerequisites. The teaching fellows will provide close advice in carrying out research. This class is open to seniors writing theses on related topics.

Course Meeting:

3:00pm - 5:00pm

Weil Town Hall, Belfer Building in the Harvard Kennedy School (non-HKS students can only enter through the Wexner main entrance)

Course Instructors:

Lawrence Summers

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The new low interest era of macro policy

- **[Blanchard, Olivier J. and Lawrence H. Summers. "Rethinking Stabilization Policy: Evolution or Revolution?," *NBER Working Papers*, December 2017.](#)
- **[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.](#)
- **[Summers, Lawrence H. 2021. "Opinion: It's Time for the Fed to Rethink Quantitative Easing." *The Washington Post*. August 26.](#)
- [Anayi, Lena, Jose Maria Barrero, Nicholas Bloom, Philip Bunn, Steven Davis, Julia Leather, Brent Meyer, Myrto Oikonomou, Emil Mihaylov, Paul Mizen and Gregory Thwaites. "Labour Market Reallocation in the Wake of Covid-19". VoxEU CEPR, August 13, 2021.](#)
- [Backhouse, Roger and Mauro Boianovsky. 2016. "Secular Stagnation: The History of a Macroeconomic Heresy." *European Journal of the History of Economic Thought*, 23 \(6\).](#)
- [Gurrieri, Veronica, Guido Lorenzoni, Ludwig Straub, and Ivan Werning. "Viral Recessions: Lack of Demand During Coronavirus Crises". VoxEU CEPR, May 6, 2020.](#)
- [Ha, Jongrim, M. Ayhan Kose and Franziska Ohnsorge. "Inflationary Pressures: Likely Temporary but Challenging for Policy Design". July 14, 2021.](#)
- [Hannoun, Hervé. 2015. "Ultra-Low or Negative Interest Rates: What They Mean for Financial Stability and Growth".](#)
- [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.](#)
- [Summers, Lawrence H. 2020. "Accepting the reality of secular stagnation." *IMF Finance & Development* 57 \(1\).](#)
- [Teulings, Coen and Richard Baldwin \(eds.\). 2014. *Secular Stagnation: Facts, Causes, and Cures*. VoxEU CEPR. August 15, 2014.](#)

Why did interest go down?

- **[Caballero, Ricardo J., Emmanuel Farhi, and Pierre-Olivier Gourinchas. 2017. "The Safe Asset Shortage Conundrum." *Journal of Economic Perspectives* 31 \(3\): 29-46.](#)
- **[Rachel, Lukasz, and Thomas Smith. 2015. "Secular drivers of the global real interest rate."](#)
- [Bauer, Michael D., and Glenn D. Rudebusch. 2020. "Interest Rates under Falling Stars." *American Economic Review*, 110 \(5\): 1316-54.](#)
- [Bernanke, Ben S. "Why Are Interest Rates So Low, Part 2: Secular Stagnation." Brookings Institution, March 31 2015.](#)
- [Summers, Lawrence H. "On Secular Stagnation: Larry Summers Responds to Ben Bernanke." Brookings Institution, April 1 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 Jacob A. Robbins. "A model of secular stagnation: Theory and quantitative evaluation." *American Economic Journal: Macroeconomics* 11, no. 1 \(2019\): 1-48.](#)

[Gruber, Joseph W., and Steven B. Kamin. 2015. "The corporate saving glut in the aftermath of the global financial crisis." *FRB International Finance Discussion Paper* 1150.](#)

[Mian, Atif R., Ludwig Straub, and Amir Sufi. *The Saving Glut of the Rich*. No. w26941. National Bureau of Economic Research, 2020.](#)

[Mian, Atif R., Ludwig Straub, and Amir Sufi. "What Explains the Decline in \$r^*\$? Rising Income Inequality versus Demographic Shifts." Unpublished Manuscript.](#)

Monetary policy challenges for central banks; forward guidance, QE, debt management policies, is there overheating

[**Bernanke, Ben S. 2019. "Monetary Policy in a New Era." In *Evolution or Revolution?: Rethinking Macroeconomic Policy after the Great Recession*, edited by Olivier Blanchard and Lawrence H. Summers, 3-48. MIT Press, 2019.](#)

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

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

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

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

[Cochrane, John H. 2018. Michelson-Morley, Fisher, and Occam: The Radical Implications of Stable Quiet Inflation at the Zero Bound. *NBER Macroeconomics Annual* 2018 \(32\): 113-226.](#)

[Cochrane, John H., "Strategic Review and Beyond: Rethinking Monetary Policy and Independence", May, 2020.](#)

[Gertler, Mark. *Rethinking the power of forward guidance: Lessons from Japan*. No. w23707. National Bureau of Economic Research, 2017.](#)

[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."](#)

[Ilzetski, Ethan, Carmen Reinhart, and Kenneth Rogoff. Forthcoming. "Will The Secular Decline In Exchange Rate And Inflation Volatility Survive Covid-19?" *Brookings Papers on Economic Activity*. Edited by Janice Eberly and James Stock, Fall 2020.](#)

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

[Stansbury, Anna and Lawrence H. Summers. "Declining Worker Power and American Economic Performance." *Brookings Papers on Economic Activity*, March 19, 2020.](#)

[Woodford, Michael. "Post-pandemic monetary policy and the effective lower bound." In *Presentation at Conference organized by The Federal Reserve Bank of Kansas City, Jackson Hole, August. 2020*](#)

Inflation in COVID-19

[**Summers, Lawrence and Paul Krugman "Will the Biden Stimulus Lead to Inflation?" Princeton University Bendheim Center for Finance, February 2021.](#)

- **[Blanchard, Olivier. "In defense of concerns over the \\$1.9 trillion relief plan." Peterson Institute for International Economics, February 18, 2021](#)
- *[Brunnermeier, Markus., Sebastian Merkel, Jonathan Payne, and Yuliy Sannikov. "COVID-19: Inflation and Disinflation Pressures." September 15, 2020](#)
- [Balleer, Almut., Sebastian Link, Manuel Menkhoff, and Peter Zorn. "Demand versus supply: Price adjustment during the Covid-19 pandemic". VoxEU, June 27, 2020.](#)
- [Jerome Powell, "The Federal Reserve's Response to the Coronavirus Pandemic." Testimony to the Select Subcommittee on the Coronavirus Crisis, U.S. House of Representatives, June 22, 2021](#)
- [Ilzetzki, Ethan. "Post-COVID Inflation Risks for the UK." VoxEU CEPR, February 9, 2021.](#)
- [Ball, Laurence., Gita Gopinath, Daniel Leigh, Prachi Mishra, Antonio Spilimbergo. "US Inflation: Set for take-off?" VoxEU CEPR, May 7, 2021.](#)

Fiscal policy in the new era

- **[Blanchard, Olivier. 2019. "Public Debt and Low Interest Rates." *American Economic Review*, 109 \(4\): 1197-1229.](#)
- **[Furman, Jason and Lawrence H. Summers "Reconsideration of Fiscal Policy in the Era of Low Interest Rates". Brookings, November 30, 2020.](#)
- *[Mian, Atif R., Ludwig Straub, and Amir Sufi. 2020. *Indebted demand*. No. w26940. National Bureau of Economic Research.](#)
- *[Mian, Atif R., Ludwig Straub, and Amir Sufi. 2020. *A Goldilocks Theory of Fiscal Policy*. June 2021.](#)
- [Allen, William A., Jagjit S. Chandra, and Philip Turner. "Quantitative Tightening: Protecting Monetary Policy from Fiscal Encroachment." National Institute of Economic and Social Research, July 27, 2021.](#)
- [Eggertsson, Gauti B. 2011. "What fiscal policy is effective at zero interest rates?." *NBER Macroeconomics Annual* 25 \(1\): 59-112.](#)
- [Furman, Jason and Lawrence H. Summers. "Who's Afraid of Budget Deficits?". *Foreign Affairs*, March/April 2019.](#)
- [Tucker, Paul. "Evidence on Quantitative Easing." Testimony to the Select Committee on Economic Affairs, February 2, 2021.](#)
- [Rogoff, Kenneth. "Falling Real Interest Rates, Rising Debt: A Free Lunch?". February 9 2020.](#)
- [Romer, Christina. "The Fiscal Policy Response to the Pandemic". Brookings Papers on Economic Activity, March 25, 2021.](#)

Financial stability

- **[Blanchard, Olivier J. and Lawrence H. Summers, "Automatic Stabilizers in a Low-Rate Environment," Peterson Institute for International Economics, February 2020.](#)
- [Brunnermeier, Markus K., Sebastian A. Merkel, and Yuliy Sannikov. 2020. "Debt as safe asset: Mining the bubble." *Princeton University work in progress*.](#)
- [Brunnermeier, Markus K., Thomas Eisenbach and Yuliy Sannikov, 2013, "Macroeconomics with Financial Frictions: A Survey"](#)
- [Diamond, Douglas W., and Philip H. Dybvig "Bank Runs, Deposit Insurance, and Liquidity." *Journal of Political Economy*, Vol. 91, No. 3, June 1983.](#)

[Gorton, Gary B., and Andrew Metric. *Securitized Banking and the Run on the Repo*. Journal of Financial Economics, Vol. 104, Issue 3, June 2012.](#)

[Hanson, Samuel G., and Jeremy Stein. *Monetary Policy and Long-Term Real Rates*. Journal of Financial Economics, Vol. 115, Issue 3, March 2015.](#)

[Holmstrom, Bengt. "Understanding the Role of Debt in the Financial System." Bank for International Settlements, January 2015.](#)

[Woodford, Michael. "Post-pandemic monetary policy and the effective lower bound." In *Presentation at Conference organized by The Federal Reserve Bank of Kansas City, Jackson Hole, August, 2020*](#)

[Woodford, Michael, and Yixi Xie. *Fiscal and monetary stabilization policy at the zero lower bound: consequences of limited foresight*. No. w27521. National Bureau of Economic Research, 2020.](#)

International Monetary system and the future of the dollar, central banks digital currencies

[**Cooper, Richard N. *Future of the Dollar*. No. PB09-21. Washington, DC: Peterson Institute for International Economics, 2009.](#)

[**Farhi, Emmanuel and Matteo Maggiori. 2019. "China versus the United States: IMS Meets IPS." *AEA Papers and Proceedings*, Vol.109 :476-81.](#)

[Bech, Morten L., and Rodney Garratt. 2017. "Central bank cryptocurrencies." *BIS Quarterly Review September*.](#)

[Brunnermeier, Markus K., Harold James, and Jean-Pierre Landau. "The Digitalization of Money". Working Papers. 2019.](#)

[Cecchetti, Stephen and Kim Schoenholtz. "Central Bank Digital Currency: The battle for the soul of the financial system" *VoxEU CEPR*. July 8, 2021.](#)

[Fernández-Villaverde, Jesús, Daniel Sanches, Linda Schilling and Harald Uhlig. "Central bank digital currency: Central banking for all" *VoxEU CEPR*. 25 April 2020.](#)

[Meaning, Jack, Ben Dyson, James Barker, and Emily Clayton. 2018. "Broadening narrow money: monetary policy with a central bank digital currency."](#)

[Paulson Jr, Henry M. 2020. "The Future of the Dollar." *Foreign Affairs* 19.](#)

[Prasad, Eswar. "Has the Dollar Lost Ground as the Dominant International Currency?", Brookings Institution, September 20, 2019.](#)

Bonus section: Macroeconomic Research Methodology

[**Lucas, Robert. "Understanding Business Cycles" Carnegie-Rochester Conference Series on Public Policy, Volume 5, 1977.](#)

[**Prescott, Edward. "Nobel Lecture: The Transformation of Macroeconomic Policy and Research," *Journal of Political Economy* 114, 203-35, 2006.](#)

[*Lucas, Robert. "Econometric Policy Evaluation: A Critique" Carnegie-Rochester Conference Series on Public Policy, 1976.](#)

[*Summers, Lawrence. "The Scientific Illusion in Empirical Macroeconomics". *The Scandinavian Journal of Economics*, Vol. 93, No. 2. June 1991.](#)

[Hendry, David F. "The Econometrics of Macroeconomic Forecasting." *The Economic Journal* Vol. 107, No. 444 \(Sep., 1997\), pp. 1330-1357 \(28 pages\) Published By: Oxford University Press.](#)

[Kydland, Finn E. and Prescott, Edward C. "Time to Build and Aggregate Fluctuations" Econometrica, Vol. 50 No. 6, Nov 1982.](#)
[Nikolov, Plamen. "Writing Tips for Economics Research Papers".](#)

** = required reading.

* = strongly encouraged reading.