REALLY UNCONVENTIONAL MONETARY POLICY: DIRECT TRANSFERS TO HOUSEHOLDS

JOHANNES BOEHM

18/11/2024

THE MAIN THESIS:

1. Central Banks should expand their toolkit
2. That toolkit should, in particular, include direct transfers to households
3. They should prepare (legally, operationally) these instruments while they are not (yet) needed

WHY DIRECT TRANSFERS FROM CB'S?

1. **(Effective) zero lower bound**: interest rate policy fails to stimulate demand at ZLB.

Between 2010 and (at least) 2018, CB's were looking for "unconventional" ways of stimulating aggregate demand. This included, in particular, QE, credit easing, and forward guidance.

QE, credit easing perhaps useful as a financial stability measure, but impact on aggregate demand not clear.

“FIFTY SHADES OF QE: COMPARING FINDINGS OF CENTRAL BANKERS AND ACADEMICS”
FABO, JANCOKOVA, KEMPF, PASTOR, 2020

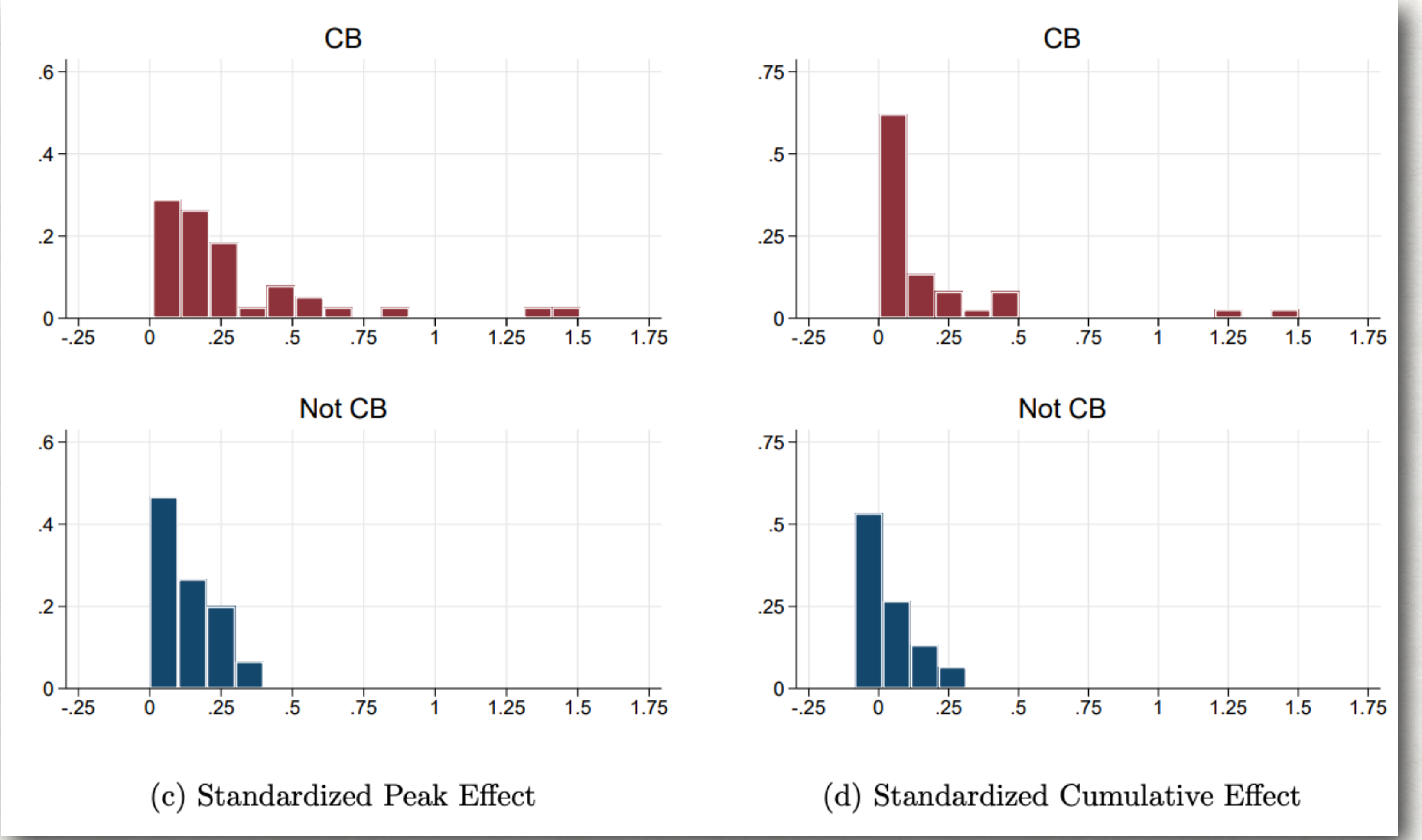
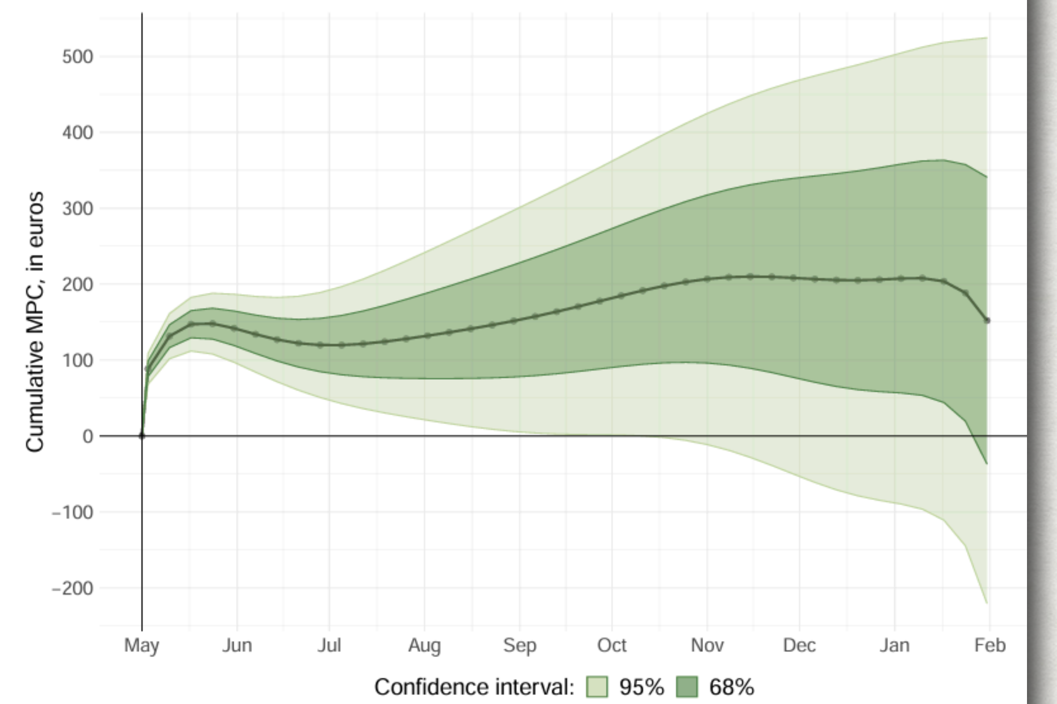


Figure 2: Effects of QE on Output by Central Bank Affiliation. The figure plots histograms for the estimated effects on output, separately for papers with and without CB-affiliated authors. Figures show the estimated peak and cumulative effects of the QE program studied on the level of output, after standardizing the QE program size to 1% of GDP.

BUT... THE LIQUIDITY TRAP?

- "Standard" liquidity trap argument says that households would save a nominal transfer (unless liquidity constrained etc).
- In work with E. Fize & X. Jaravel (*AER*, forthcoming) we gave French households a 300 euro transfer and estimated the consumption response: MPC is large and positive.
- At the time (2022), French short-term treasury yields were <0.

Figure 2 Long-term MPC estimates



BUT… THAT'S FISCAL POLICY!?

- Maybe… depends what you call MP/FP. My definition of monetary policy here is "anything that the CB does".

- So: should it be the CB or the Treasury that does it? In my view, it should be done *at least sometimes* by the CB:

1. **Consolidation vs not.** If the CB does it, it shows up on the CB's balance sheet. My impression is that markets don't fully consolidate the CB and treasury's balance sheet.

    - Emphasis on public debt/gdp ratio

2. **Political economy:** I'd prefer a world where only the central bank can (sometimes) hand out candy, and the politicians cannot

    - See Covid relief policies

BUT… THAT’S POTENTIALLY REDISTRIBUTIVE!?

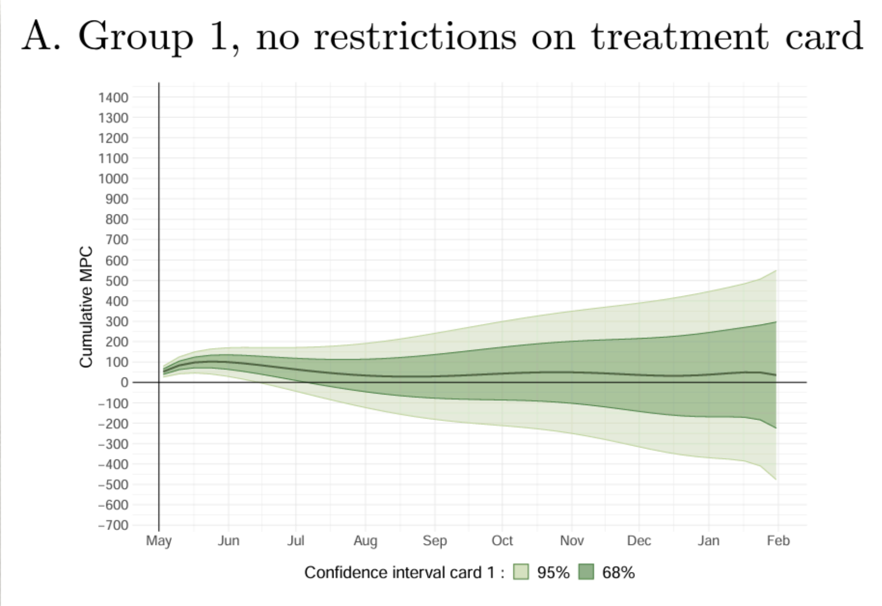
- Yes, just like any other form of monetary policy is.

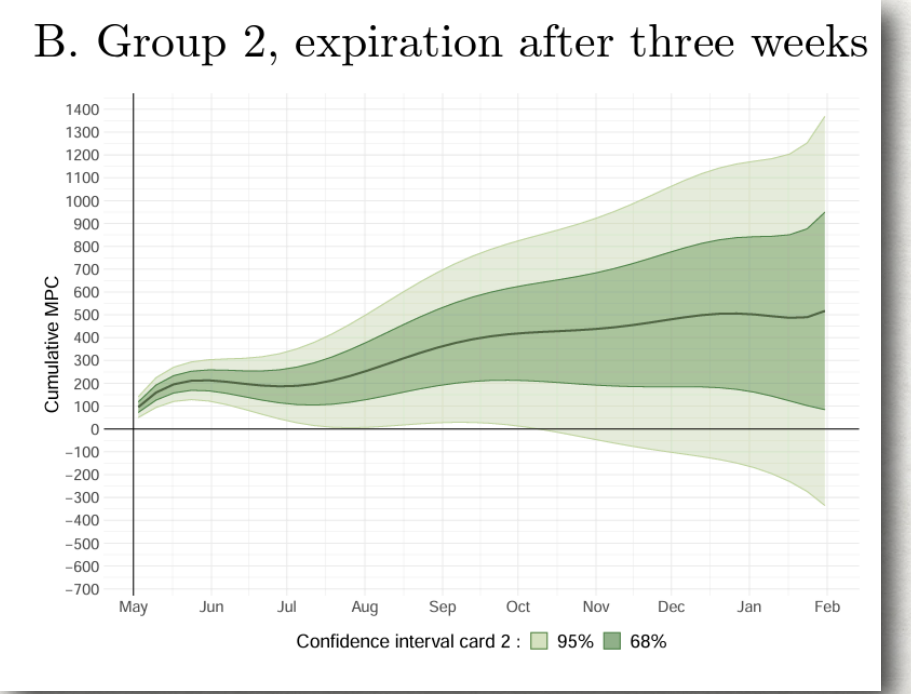
IS THIS GOING TO INCREASE INFLATION EXPECTATIONS? ("ARE YOU SURE THIS IS A GOOD IDEA?")

- To be clear, I would not recommend this in situations where the CB is not independent or when independence is threatened.
- Even with independent CB's, I do not suggest that this should replace "normal" monetary policy. But potentially useful tool when
  - …we're at the ZLB and the output gap is still large
  - …when there is a clear and urgent need for stimulus policies (to crowd out fiscal transfers).
- In my view, in the aftermath of the financial crisis + during Covid, a little bit of that would have been a good thing.
  - Painkiller metaphor

SO WHAT SHOULD WE DO? HOW SHOULD WE DO IT?

- CB creates reserve accounts for households, "lends" at zero interest rate in perpetuity to household.
- In practical terms, implementation via time-limited payment cards can increase the demand response (see paper with Fize & Jaravel)
  - Baseline stimulus of 300 eur: 23% 4-week MPC; Card with 3-week expiry date: 61% MPC.
- Should set up legal and operational infrastructure while the it's not yet needed





THE DEEPER QUESTION: MP VIA THE BANKING SYSTEM (OR NOT)?

- The deeper question is whether MP should be done via the banking system (i.e. targeting interbank rates) or direct vis-a-vis firms and households

  Right now we only do it via interbank system. That has some benefits, but comes at costs:

  (i) Lower effectiveness of the monetary transmission channel.

  (ii) Accusations of vested interests (saving Wall Street but not Hight Street, etc).

  I don't know how to think about all these trade-offs, but they're interesting questions.

DISCUSSION
+
THANK YOU

johannes.boehm@graduateinstitute.ch