

Presentation to FRBNY Economic Advisory Panel

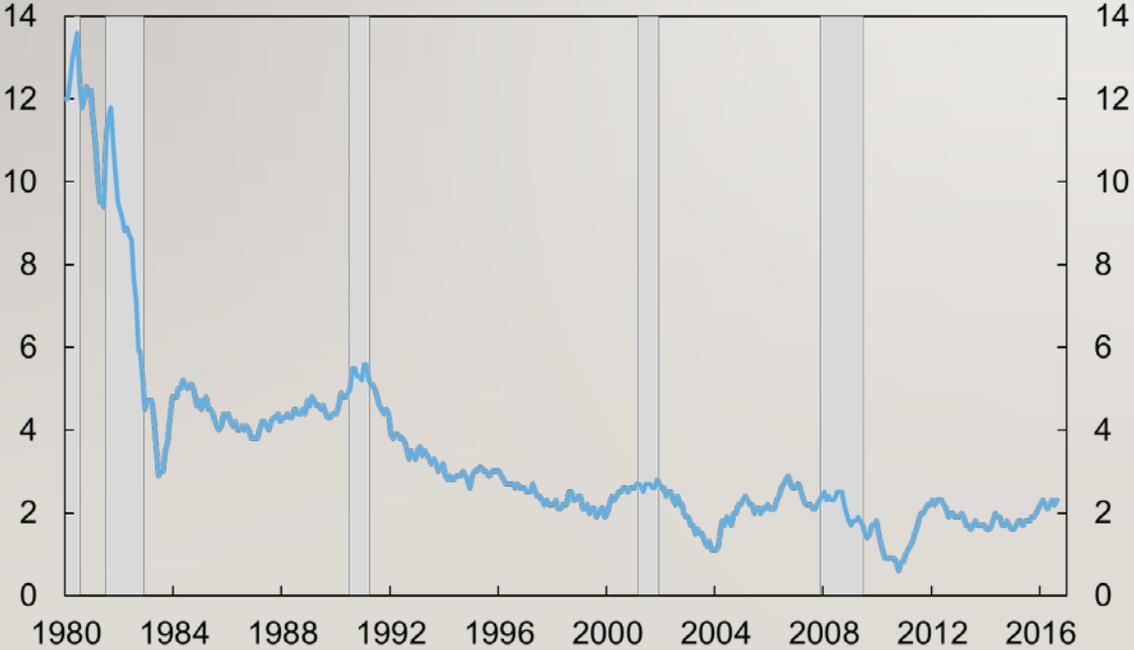
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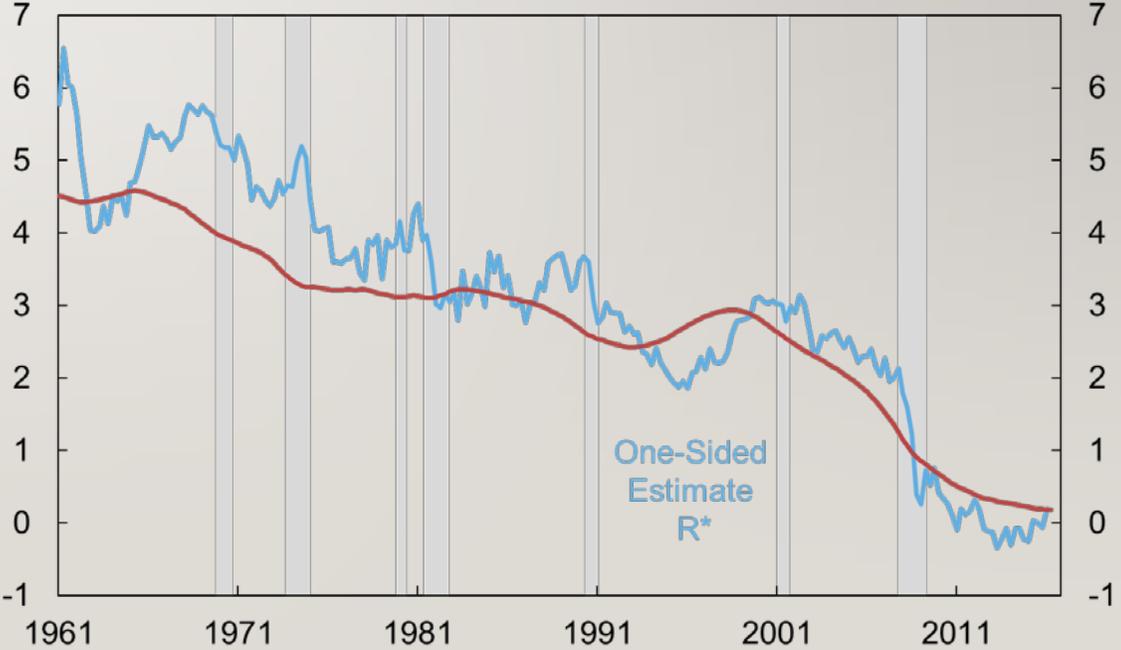
October 21, 2016

We likely live in a new era of low interest rates

Core CPI
(12-mo % change)



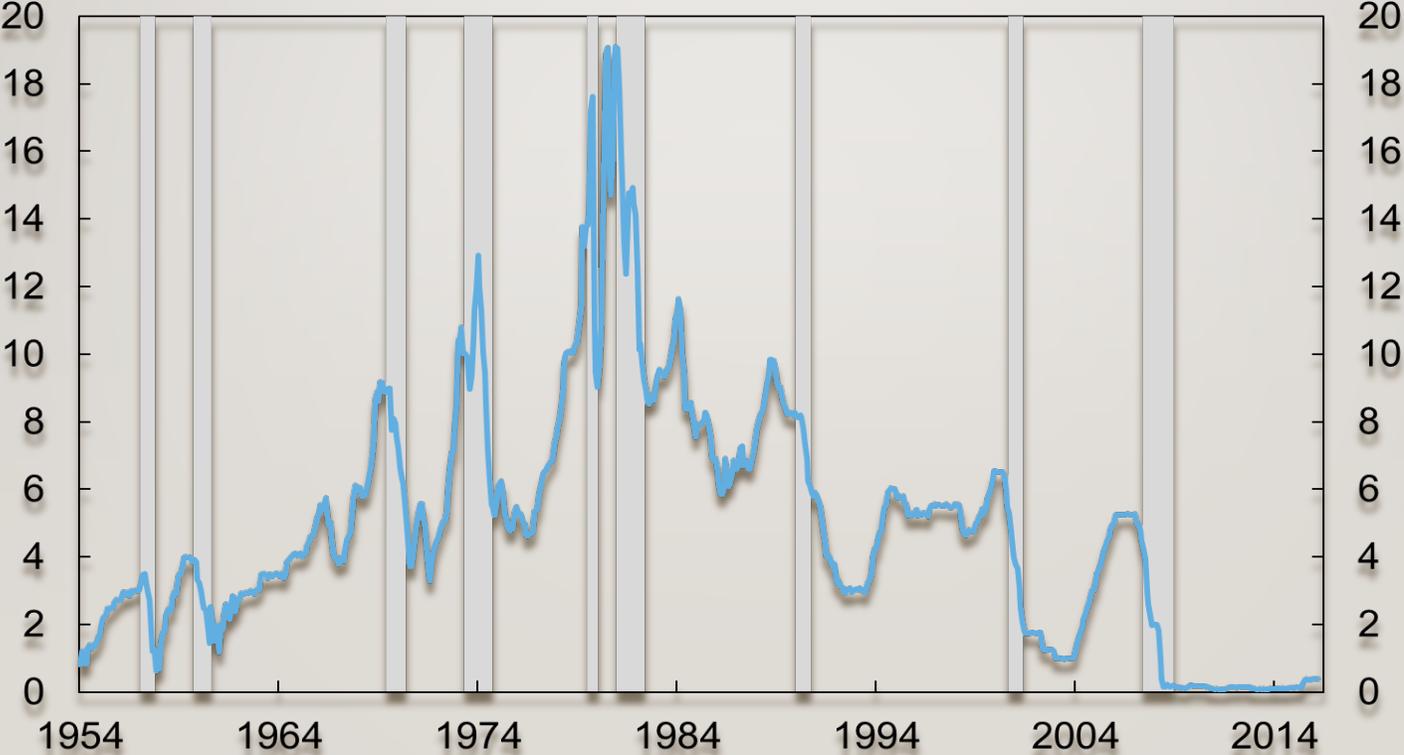
Laubach-Williams R* estimates



Some consequences for monetary policy

I. The FOMC will no longer be able to cut the funds rate by 250-600 bps to fight recessions.

Fed funds effective



2. With the funds rate near zero more often, the FOMC will have to get more creative—and maybe boastful.

- No central bank likes to admit being powerless.
- But might this endanger the Fed's credibility?
- A *possible* “solution”: Peg a different rate.

3. Do super-low interest rates foment asset-price bubbles?

- Seems so, e.g., reaching for yield.
- But what if very low rates get to seem (and are) “normal?”
- Let’s not forget that low discount rates raise fundamental values.

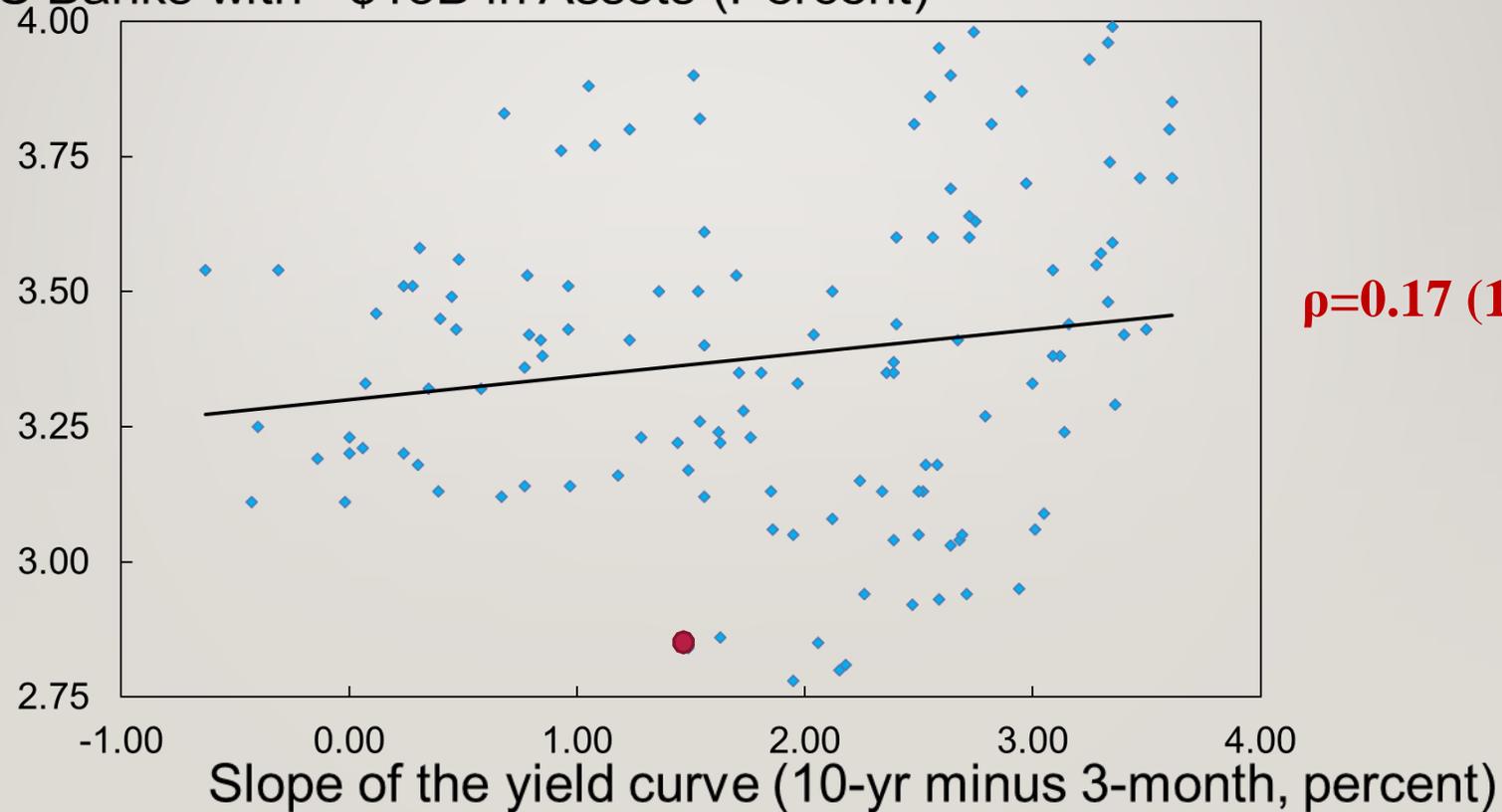
4. Distributional effects of monetary policy may become more salient.

The very low interest rates to fight recessions will:

- Raise asset values—benefitting the rich
- Impoverish people (e.g., retirees) living on interest income—the not-very rich
- Make it very difficult to save for retirement

5. Will a flatter yield curve (greatly) damage bank profitability, as widely assumed?

NIM for US Banks with >\$15B in Assets (Percent)



6. A research question: Is there a major slope discontinuity at $i=0$?

- We used to think there was a ZLB. That's been proven wrong.
- But does pushing the funds rate from, say, 1% to -1% pack (much) less punch than moving it from, say, 3% to 1%?