THE BROOKINGS INSTITUTION

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# ALAN BLINDER:

# 'A MONETARY AND FISCAL HISTORY OF THE UNITED STATES, 1961-2021'

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**David Wessel** [00:07:42] Welcome. I'm David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy here at the Brookings Institution. And I'm very pleased to welcome you to today's conversation, led by Alan Blinder, his new book on fiscal and monetary policy, 1961 to 2021. For people who are following online, if you want to ask any questions, you can send them to events at Brookings dot edu or on Twitter at hashtag blinder history or on the website Slido, S-L-I dot D-O, hashtag blinder history, and we'll try and get some of those questions in— we've received quite a few already. Alan Blinder has been on the faculty at Princeton, his alma mater, since earning his Ph.D. from MIT in 1971. He spent 1993 through 1990— or January 93 through January 96— in Washington, first as a member of President Clinton's Council of Economic Advisors and then as vice chair of the Board of Governors. He is, according to the Princeton website, the author or coauthor of 22 books, one of which is one of the best books on the 2007, nine, global financial crisis. So Alan is doing his part to boost the growth of productivity in the United States.

He also happens to be, in my opinion, one of the very few academic economists who can actually write well. Apparently, that's not a criteria to get a Ph.D. And I'm pleased that for people who are in the audience, we're going to be selling copies of Alan's book and he's going to sign them. And our bookstore manager says we're selling for $10 below the list price, which as Don Kohn said to me, Alan's trying to do his part to reduce the rate of inflation.

After Alan speaks, he's going to be joined on stage by my colleague Don Kohn. Don joined the Federal Reserve after earning his Ph.D. from the University of Michigan in 1971. He spent many years on the staff of the Federal Reserve and was named a governor in 2002 and later Vice Chair, the same job that Alan Blinder held. Don joined Brookings after retiring from the Fed in 2010, and he spent a decade after that because he wasn't tired enough of dealing with central bankers as a member of the Financial Policy Committee of the Bank of England. So one of the things that's interesting about this book is that both Alan and Don lived the period 1961 to 1921. Just so you know, in 1961, Alan was 16 and Don was nine, no, Alan was 16 and Don was 19. Indeed, they were active participants in much of that period as academics, as government staffers, or as policymakers.

I have to say I recall it very vividly, Alan Blinder's remarks at the 1994 Jackson Hole Conference, the subject of which was unemployment. Alan had the boldness to suggest that he was— as a Fed governor— as concerned about the maximum employment part of the Fed's dual mandate as he was about price stability. He practically got hung from the rafters of the Jackson Hole

Lodge after that. But I was thinking about this the other day. That was a time when central bankers seemed to talk about price stability as being their only responsibility. Today, many years after that Jackson Hole speech, the Fed has enshrined many of the points that Alan made in its formal statement of monetary policy. We're really happy to have Alan with us today. He's been in and out of Brookings over the years, and I think that it's a particularly timely time to think about the interaction of fiscal and monetary policy. When I ask Alan if he would do this with us, he said, well, I guess I ought to, given that the name of the Hutchins Center is the Hutchins Center on Fiscal and Monetary Policy. So we're very glad to have Alan with us today. Let me invite Alan to the podium. He has some slides and then he'll join Don on the stage. And then following that, I'll introduce the panel of experts we have to talk about current issues and monetary policy. Alan.

**Alan Blinder** [00:12:01] Thank you, David, and thank you, everyone, for coming. I just want to say for the historical record that at the time of that infamous Jackson Hole speech, to my recollection— I didn't check it because I didn't know you were going to mention this— that the unemployment rate was six and a half and the inflation rate was three. So it was a different looking world at that, at that time. So thinking, as I'm sure is true, as I look around some faces I recognize, that this would be an unusually sophisticated audience in terms of monetary and fiscal policy and macroeconomics in general. I thought that what I would pick out of this 400-page book for a ten minute talk is a quick tour, a cook's tour of the ups and downs of monetary— I was going to say versus— fiscal policy. Sometimes it was versus sometimes it was cooperative. And that's kind of one of the themes of this book.

So let me start at the beginning. Yeah. So this just said, I should have put the slide up. So what I want to talk about is who is sitting in first chair in this orchestra and who is playing second fiddle, and that changed quite a bit over the six years in this, in this book. Starting at the beginning of the book, not at the beginning of history, but pretty much at the beginning of discretionary fiscal policy in the United States, anyway. Fiscal policy was the big deal back in the Kennedy Johnson years. Kennedy proposed a major tax cut at a time when you didn't do things like that with a budget deficit and not a recession, and the Fed's job was to accommodate it. You know, it's curious to me that word accommodative monetary policy has stuck. This is where it started. Monetary policy was supposed to accommodate the tax cut and it did for a while. But then when it didn't, because of inflation, Johnson was then president, and he really went to war with Martin.

One of my favorite Johnson quotes that's not up here that I dug up for the book— I won't get it exactly right since it's not written here— he said, if Martin wants to go to war, I'll be glad to be Jackson against his Biddle. For those of you who don't know the reference, it was Andrew Jackson who hated Central Banks and Nicholas Biddle who presided over the second Bank of the United States till its demise. Jackson won. With Nixon and Burns, it was a very different story because it looks like Nixon was the conductor of the whole orchestra. A slight exaggeration. He was the conductor of the fiscal branch, for sure. And he had a, he had a friend of the Federal Reserve, who was, shall we say, inclined to do what Nixon thought was a good thing to do. There was some historical debate about that until the Nixon tapes were revealed, and then there's loads of quotations demonstrating that. So, as Don Kohn could say, but probably won't, it was considered a black mark in the Fed's history.

With Carter and Volcker it was quite the opposite, I call it monetary policy was first, first violin in this. Carter, seeing the high inflation and wondering how to get out of it, saw Paul Volcker as a way to get out of it. And to his everlasting credit, gave him free rein. You don't find Jimmy Carter beating up on Paul Volcker even while Paul Volcker is beating up on the economy in order to wring the inflation out. And so Volcker used the freedom he was willingly given by Carter, who naturally lost his reelection bid. That President Ronald Reagan and the peace between the Fed and the fiscal side of things didn't last. Volcker, of course, had been tightening monetary policy before Reagan became president.

The Reagan tax cuts were passed in 1981, began to be effective in 1982. So you had a classic textbook clash between loose fiscal policy and tight monetary policy. And the textbooks, one of which I've written, I teach this to my students, tell you that if you get that kind of a policy mix, you should expect very high real interest rates because both policies are pushing real interest rates up, a soaring dollar because of those high interest rates because of what capital flows did, and as it says here, another phrase whose coinage you may not know, this is when the phrase the rust belt came into common parlance because the manufacturing firms in the Midwest were just decimated by the, by the high exchange rate. And, of course, what you all do know is the legacy of large fiscal deficits to the point of this ten-minute talk that basically eliminated fiscal policy as a stabilization tool for several decades. That if, where there was fiscal policy, it was about reducing the deficit, not about helping the economy out of recession.

I'm going to show you an example of that shortly with the next President, Bush I. Alan Greenspan is now chair of the Fed. And there were not many unkind words coming out of the administration about the Fed for being too tough. But Bush didn't, to his credit, didn't really try to do anything. He didn't ask, by the way— like Johnson did and later Trump did— can I fire that guy? There was nothing like that from George Bush, but there were plenty of bad words between the administration and the Federal Reserve, well, from the administration about the Federal Reserve. And this is a case in point of what I was saying a moment ago. We had a recession in 1990, 1991. One might think naively from reading a textbook, fiscal policy would do something, cut taxes, raise spending, something. No, that was verboten. No one even thought about it then because all the focus was on the budget deficit.

Speaking about the budget deficit, we come to Clinton and Greenspan, where peace breaks out between the White House and the Fed. It was a slightly uneasy peace, but a peace. I was there, in the Clinton. This is the part where it gets personal, right? This is, I was there in the Clinton administration and made the transition to the Fed in exactly this timespan. Bill Clinton came in single mindedly devoted, at least in rhetoric, to reducing the federal budget deficit and speaking very often as if the fiscal multiplier was negative. This, sitting at the Council of Economic Advisors, we used to wince every time he said something like that. But you may remember those, I'm looking around, yeah, a lot of people are old enough to remember. He spoke of growing the economy by cutting the deficit, and over at the CEA we're saying, let's see, how does that work? But more to the theme of this talk, he was fantastic about the Federal Reserve. We don't comment on the Fed. Literally, those six words became the mantra of the Clinton administration. All of us in the administration were instructed, if anyone asks you about the Fed, that's what you say. We don't comment on the Fed.

This is a huge change from what had just gone on with the Bush administration. And I'm sure Alan Greenspan was as pleased that he could be about the, the change. And the whole economy, the whole country got pleased by the results. The economy boomed despite this fiscal contraction. I don't think it's because the fiscal multiplier was negative. But the bond market rallied, as some of you may know, on this credible deficit reduction plan. And Clinton was helped along by a dose of good luck later in his second term, basically, by a surge in productivity which helped him and helped the Fed.

With the second George Bush, I wrote down here All Together Now. He came in with Greenspan already sitting for a long time in the, and was already legendary, as the chairman of the

Fed. Alan Greenspan, much to the chagrin of Democrats and the glee of Republicans, basically endorsed the Bush tax cuts. And a lot of us thought that was sort of crossing the line where that shouldn't have been crossed, but Greenspan crossed it anyway. When you're second only to God, you cross all kinds of lines. And Ben became chairman during the Bush administration of 2006. And to his great fortune, the financial crisis hit right after that. When I say fortune, I don't imagine you were short on all of these securities. I didn't, I should have said misfortune.

But Ben was sitting in the seat when these horrible things happened and the response of the two agencies, the fiscal and the monetary, were a pretty modest fiscal response under Bush— I'm coming to Obama in about 10 seconds— and a very forceful monetary response from the Bernanke Fed, of which most of you are probably well aware. And to me, this was the first time in decades that the Fed saw and actually said out loud that monetary policy wasn't enough. Remember we had just come through about like a 20-year period where managing the macro economy was up to the Fed and the fiscal authorities weren't participating in it one way or, or another. The Fed could do it. And that became the view in academia. The Fed can do it. And why do we need the FISC for? But when, when the horrors of the Great Recession hit, Ben, among others, it wasn't just Ben, but Ben was in the most prominent position, were saying, we can't do this on our own, we need some help from the fiscal side. Which he got early in the Obama administration when for a brief, one, brief shining moment— is that the phrase you're supposed to use— for a moment the fiscal authority really stepped into the first chair in this orchestra with the Recovery Act, which, ironically, from the perspective of 2022 was viewed, and that was viewed as huge.

What's happened since, this doesn't look so huge, and in fact, it's been criticized as probably a lot of you know, for being too small to do the job. My opinion, for what it's worth, is that's all they could have got through Congress. It probably was too small economically and too big politically, and they managed to get it through. But that's my opinion. But the point I wanted to make with the brief shining moment is that after that— and this is just not well known by a lot of people, though Ben certainly will remember it well— fiscal policy turned contractionary. And if you actually look up the numbers, which I did in preparing this book, it was about a one and a half percent of GDP, fiscal contraction for three years running. Do the math. That's about what the Recovery Act was in the other direction, although the timing is quite different. And this was despite Obama trying to do more, and

Ben Bernanke from his seat at the Fed urging the Congress, don't do that, we don't need a contractionary policy with such a down economy. But they did it anyway.

And so the Fed again became the only game in town when it came to getting us out of this recession. Trump, as a candidate, you'll remember, berated the Fed, then run by Janet Yellen for being too loose, and then somehow, as soon as he became president, he berated his own appointee, Jay Powell, for being too tight. The two policies weren't all that different, but the incumbency versus the candidacy was very different. Congress passed a gigantic fiscal stimulus, the CARES Act in early 2020. And I think it's fair to say, without going into details— this is supposed to be a ten-minute talk and I'm probably in the 11th minute now— the Fed threw the kitchen sink at the recession. They put every, they put back everything the Bernanke Fed had done. And then they threw more things on it, some of which were more or less mandated by the CARES Act. If you think about that, there was a little bit of a violation of fed, of the separation of the Fed and the, and the White House and the Congress. The Fed could have objected to it but did not because the economy needed it. And so we had the second case of the two arms of stabilization policy pushing strongly in the same direction.

Last but not least, we come to the Biden administration, the American Rescue Plan, which, as you probably know, has been criticized for being too large and therefore a source of inflation since it was passed early in the Biden term. So fiscal of, fiscal policy was used in a big way early in the Biden presidency, and notably quite differently from the Reagan-Volcker period. The Fed did not try to offset it. If people sitting at the Fed thought that was too much demand stimulation, I don't know if they did. They were quiet about it and certainly didn't take any policy actions to offset it. And Biden, on his part, without even saying so, went back to the Clinton hands off the Fed. Just think about this. You don't hear people from the Biden administration, like we in the Clinton administration, had to say in our sleep, we don't comment on the Fed. They just don't comment on the Fed. They don't make a peep about the, about the Fed. And I'm sure that suits Jay Powell fine.

So what's going on now? Of course, the Fed, which I think has justifiably been criticized, including self-criticism, for getting a late start on slowing the economy down has been trying to make up for it and raising rates very, very rapidly. And it's notable, I think, that no one is advocating fiscal policy to fight the inflation. There's a quotation— is that the end? There's a quotation that I didn't bring up because I'm going to keep the short. Back in the sixties, where the administration and the Federal Reserve together said that fighting inflation was mostly the job of fiscal policy, can you imagine that?

But, but it was, it was in the economic report of the president. That has not been the attitude today. But as I said, to his everlasting credit, Biden has not put the finger of blame on the Fed for causing this inflation, which he could have done with some justification. And the question, of course, is whether that's going to last if there's a recession next year and we'll see, next year's not that far away. Thank you.

**Donald Kohn** [00:27:51] Thank you, Alan. As you can see, this is a very, I really enjoyed the book. David is right. It exactly overlaps my time in economics. I took my first economics course in September of 1961 and set out on a path that inexorably led me to this chair sitting next to him. And he also, I really was sort of reliving my own history there. It's very clearly written there, as you saw, very clearly spelled out interactions between fiscal and monetary policy. But what I really enjoyed as an economist was the feedback between economic ideas and policy. In some cases, as you pointed out, the economic ideas didn't end up in policy, but often they did and influenced it. And I thought that interplay was, was very useful. So I thought I'd use our short time here to do a, try and do a few things.

One is to see, a question I'm often asked is, you were in the Fed in the 1970s, what are the similarities and differences between the seventies and 2020, 21, 22, and see whether there are lessons from that era that the Fed and other policymakers can take from this year. So let me start with a very broad question about the 1970s and the 21, 2020, 21, 22 period. What do you see as the similarities and differences?

**Alan Blinder** [00:29:33] I think there are obvious similarities in the, in the supply shock realm that we have had recently, oil prices and food prices driving headline inflation way above core inflation. I didn't actually check, but I think it's the biggest gap between the two since, since that episode back then. A crucial difference between the two, I think, is that when these supply shocks first hit, the first round was in the early seventies. Central bankers around the world, including but not limited to the Fed, didn't quite know what to make of this new phenomenon, that they had been brought up with courses like Don and I took when we were youngsters that said you had too much demand and that gave you inflation, it was nice you got low unemployment, but you got inflation, or you had too little, and then you got high unemployment and you weren't worried about inflation. And there they were, staring in the face of a stagflationary economy, a recession for sure, but an inflationary recession.

So what do you do? Do you come in with easier monetary policy to fight the recession, or tighter monetary policy to fight the inflation? If you look back in the early history of that, both fiscal and monetary policy actually vacillated, didn't quite know what to, how to handle this. I didn't mention, one of the presidents I left out in the interest of 10 minutes was Gerry Ford, who wasn't president very long, but he was president long enough to recommend to Congress a tax increase to fight inflation in October 1974, and then a tax decrease to fight unemployment in January 1975. And I leave it to the audience to guess which one passed the Congress. But that was emblematic of the confusion, like, what are we supposed to be fighting with our left hand or our right hand? Yeah, you don't have that anymore. There's a realization, and I think the way things have worked out so far, maybe too much of a realization, that the— I'm a guilty party to— that these things will pass, the supply shocks, and you don't have to use monetary policy to try to get the oil price out, down or the food price—

**Donald Kohn** [00:32:06] You're talking about transitory price shocks.

**Alan Blinder** [00:32:09] Exactly. So this so-called team transit, I was a member of Team Transitory recently. But I want to say for everybody's information, I did not coin the phrase, thank God. It was a very bad coinage. The, the thinking was correct, is what I just said, that the oil prices will at some point plateau or go down. The food prices will plateau or go down. And that will happen regardless of what the Federal Reserve does. But calling it transitory when it's lasted as long as it has, is, was inept coinage. Not my fault. The thing that's very different now, and it's finally drawing to a close, I think, again, why transitory was a bad word, is the supply bottlenecks left as the legacy of the comeback from the, from COVID? We didn't have anything like that in the in the 1970s. So when people then reeled off the list of supply shocks, you know, we didn't have, there weren't enough chips to make automobiles and stuff like that. I mean, that was not part of the story.

**Donald Kohn** [00:33:27] You also note in your book that there were forecast errors in the 1970s.

**Alan Blinder** [00:33:35] Oh, yeah.

**Donald Kohn** [00:33:35] And you cite the article by Athanasios Orphanides that said that the Fed, showed that the Fed, over, had a wrong estimate of what the unemployment rate could be to hold inflation stable. They thought it was lower than it actually turned out to be, and they also thought productivity was higher. So one of the reasons that they didn't act as, there were a lot of reasons they didn't act, then you, you go through the Byrnes, the Byrnes Nixon dynamic very clearly. But another reason was that they had bad forecast, they made bad forecast errors. So clearly there was some of that going on over the last couple of years, too. How do you, how do you think about what the, what the mistakes were in terms of forecasting inflation?

**Alan Blinder** [00:34:33] Well, the big mistake there in, in terms of Athanasios work years ago was estimating potential GDP, which is always fraught with difficulties because of the senior partner in that, which is productivity growth. The population part, you can't get, you can get a little bit wrong, but you're not going to get very wrong. It's all about productivity growth. And we had a surprising productivity slowdown, usually dated from 1973-ish, Athanasios takes a little earlier than that, but the point holds, and these movements in productivity always catch economists off guard. They're completely unpredictable. So when I said that, I don't mean to put the finger of blame on our profession. Nobody can predict them. They're completely unpredictable. I'm talking about big changes in productivity. They happen now and again. I mentioned briefly one that went the other way. After 1995, productivity started surging. It wasn't predicted, it wasn't forecast. And as a result of that, the Clinton-Greenspan team looked golden. Wasn't the only reason, but they really looked golden. It really helps that productivity surging. And so back then we had the opposite.

Right now, you know, I could throw this question to some other people sitting in the audience or to you. I don't think we have a clue about productivity. If you look at the recent productivity numbers and they look like an electrocardiogram of a person that's really sick and in danger of dying on the operating table, that's what they look like. I mean, and so we want to sort of see a trend through that. I have no idea what the trend productivity. And neither does the, but more importantly, neither does Jay Powell.

**Donald Kohn** [00:36:35] Right? Right. So what do you think the errors were that led to the bad forecasts in 2021 and 2022, or at least 2021?

**Alan Blinder** [00:36:54] I think it was. The, you know, I'm, I'm fumbling on this because what you mean by bad forecast can be one of two things. We shot up like a rocket ship, that was not forecast. Is that what you mean? Well, of course, we had a calamity before that.

**Donald Kohn** [00:37:13] The persistence of high inflation for much longer—

**Alan Blinder** [00:37:17] Just the inflation part?

**Donald Kohn** [00:37:18] Just the inflation part, right.

**Alan Blinder** [00:37:19] I think the main thing there is the unexpected and unusually long persistence of these supply shocks, including the, the unique ones that were, including the non-unique ones, oil and food, we're still haven't really, we're just starting to benefit from the downside of the oil. But the, the COVID supply shocks are barely filtering through, that, the cure of them. You see it in the micro, micro data like I've been, I've looked recently at shipping delays at the L.A. and Long Beach ports and how long it takes to get a truck unloaded there, because that was a big deal then, all of those things are looking better. That really hasn't filtered into prices and use prices yet. But, but I think it's coming. So I think the answer to your question is all of these supply shocks proved to be more persistent than a lot of us thought. Let me just add one thing. I don't attribute a lot of it, but I, I would admit to a little of it, to excess of demand caused by excessively easy monetary and fiscal policy. A little bit. A little bit of that. But most of it is, I think, is coming from the other side.

**Donald Kohn** [00:38:46] So I would just add to that myself, the feed through the labor market and the excess demand for labor as seen in the vacancies, etc., as feeding through the wages.

**Alan Blinder** [00:38:57] And yes, well, to be honest, one of the things that surprised me a bit has been how little, not how much, wage increments have accelerated, given what prices have done. Hmm. Yeah. I mean, they only move from like 3 to 5, depending on the index you look at.

**Donald Kohn** [00:39:13] So let's move forward a few years from the seventies to the early eighties. And since we're in this room, I have to ask you about what you call the Brookings rule of thumb. So this was about disinflation. So I think for, you needed to get the inflation rate down by a half a point, a half a point, you needed one year of excess unemployment. Right. So what, how did you, why do you call this the Brookings rule of thumb? And would you apply that today, which implies if I, if I take it from core CPI of a little over six and I wanted to get core CPI down to a little over two, that implies eight years of excess unemployment to get from here to.

**Alan Blinder** [00:40:02] So the answer to the first part of your question is I sat in this room at many Brookings panels and heard papers, most of which were by Bob Gordon, but not all, estimating that kind of tradeoff. And that's why I call it the, and most of those were published in the BPEA, Brookings Panel on Economic Activity. And it is what you just said, and that's why I named it, I've been calling it that for a long time, the Brookings Rule of Thumb. Now, what I want to say about that is that worked very, very well for decades. A slide that I've not brought here, but that I show to my economics 101 students at Princeton every year in the lecture on inflation, run through the Volcker disinflation in the eighties and applies the Brookings rule of thumb, and, you know, it's not exact, it's only a rule of thumb, but it works really well. So it really worked very well in the sixties, the seventies, eighties, into the nineties. It started to fall apart in the nineties.

And if you look at a scatterplot— I'm sure you have— of inflation against the change in unemployment, not the unemployment rate, the change in unemployment, you know, for the first 20 years or so of this century, so that brings us almost up to where we are now, you just don't see any correlation at all. It just went kaplooey. And that gives me, that's the answer to your last question, which is what I confidently I, you didn't say that, but would I dare apply that to the disinflation that we hope to have now, and the answer is no, because I haven't seen it working for 20 years.

**Donald Kohn** [00:41:51] Okay. All right. I'm, I'm relieved, I think. Eight years of unemployment, of high unemployment. So let me move on in the short time we have left to fiscal policy and, and ask you, number one, about debt sustainability. I mean, you're very, make it very clear in your book the asymmetry that we've gotten since the early nineties in attitudes towards deficits. Democrats want to increase spending, Republicans want to cut taxes, and since the 1990s, no one's really paid any attention, certainly not in any substantive way to the level of the deficit or the, the track of debt. And now debt is much, much higher, particularly coming out of COVID. And, and the debt to income ratio is focused is,, is projected to rise considerably further as people like us age and and go on Social Security and Medicare, etc. So is this a worry? Do you, do you worry about the debt-to-income ratio? What is the, what are the potential costs here? And what, what could be done?

**Alan Blinder** [00:43:09] Do I worry? I think the answer is depends on the day of the week. I think we've learned, so the broad answer is, I worry much less than I did ten, 20 years ago, despite the fact that the debt to GDP ratio is higher for two reasons. One empirical, one theoretical. The theoretical one, without going into the details, has been promoted by Olivier Blanchard and others, which is as long as the interest rate is below the growth rate of the economy, now, as long as they weren't, we're not quite living in that world now, but we're close. But for years we were, the, the normal arithmetical debt dynamics is working in your favor, not against you.

The second thing, which to me is more important, is looking at what has actually happened. That is, over the last year, no, you pick it, from the nineties to now, the debt to GDP ratio keeps going up, up, up, up, up. And until recently, the interest rate was going down, down, down, down, down. And this has caused me to wonder about our— as a professions— teaching, that the way you are going to pay the piper for all this, all these deficits is by higher interest rates. And if we're going to pay the piper by that, you know, the piper was pretty generous with us. The question, of course, which no one knows the answer to, is, how long can this go on? We do have the example of Japan, which is over 200% of GDP ratio. Now, Japan is special in a variety of ways. This, I don't mean to say that makes me confident that we could go to 200% of GDP without paying the piper. But what I do think, what, what I'm, what I feel very secure about is that the volume of U.S. debt that the world capital market is willing to absorb on very reasonable terms is much larger than I thought in the 1990s.

I'm sure if you asked me this question when I was one of those Clinton people reducing the deficit, and you asked me, you know, suppose that we're going to 125% of the GDP, I was, oh, boy, we're, we're really in for it on interest rates. And now everybody knows we're heading for 125% of GDP. And leaving aside what's happened very recently, and that's because of the Fed, you know, there's hardly been, hardly a trace in the long-term bond interest rate.

**Donald Kohn** [00:46:15] Are there any lessons from the United Kingdom? So there they seem to find the flinch point for the bond market. Do you think that was unique to the United Kingdom?

**Alan Blinder** [00:46:27] Yeah, I think. What do I think? I think it was somewhat, unique is always a tough word because it's not like they couldn't be someplace else, but the clumsiness of the introduction of and the coupling of the tax cuts with the Bank of England trying to fight inflation at the same time and sort of giving the appearance of, you know, I was talking about the Fed and the administration, but in that case, giving the appearance of Whitehall and the Bank of England going to war with one another, that's not good for markets. So I think a lot of it, a hunk of it had to do with the atmospherics. It was a new prime minister. You know, my guess is if there had been a prime minister, I don't wanna say Boris Johnson, he's not exactly my favorite. But if, if there had been a stable, well-respected prime minister for four and a half years and he or she had then proposed that, I'm not, I don't think it would have met the reaction that it meant.

**Donald Kohn** [00:47:40] Can I infer, because you don't seem to be particularly concerned about the debt sustainability issue that you're also not get, now, I'm taking this to the monetary fiscal interactions, there's been more discussion recently, including at Jackson Hole last summer, of fiscal dominance, of fiscal policy becoming so expansionary or those debt levels getting so high that the

Fed is almost forced to underwrite it in order to avoid default. So can I infer that this is not fiscal dominance, fiscal theory of the price level? This is not, not something you worry about.

**Alan Blinder** [00:48:21] It is not something I worry about. If you want to get too much in the weeds, if you get into the weeds of the fiscal theory of the price level, it's about the belief, the fear, the negative scenario. It's about the belief that sometime in the future, not tomorrow, but well into the future, there's a danger of default. Just, just like what you said. I just don't see that. Okay. There is some danger of inflation if the Fed is weak-kneed about it. But the U.S., I think taking the theory, literally, the idea that the U.S. is going to default on federal debt denominated in U.S. dollars is, to me, very fanciful right now. A lesser version of that is maybe we'll get more inflation as the Fed feels it has to monetize that. It's possible, but I, I feel pretty good about the independence of the Fed as long as Donald Trump is not President of the United States.

**Donald Kohn** [00:49:28] Okay. Very good. And let me just also ask you more, a little bit more about monetary fiscal cooperation. People wonder, drawing from your, your history here, you know, the first and second fiddle trading back and forth, sometimes together, sometimes not, is there a case for mechanisms, procedures that would better coordinate monetary and fiscal policy? And can this be done preserving the independence of the Federal Reserve?

**Alan Blinder** [00:50:03] I think it can't. And that's one of the reasons that while in principle you would like to think of coordinated responses of the two authorities pushing in the same direction rather than in opposite direction, if you start then thinking about what could be a mechanism that could sort of force this to happen, you got, on the one hand, the independence of the Fed, on the other hand, the reliance on the US Congress to do the right thing. I mean, I mean, suppose we had a formulaic thing that the Fed looks at what the US Congress does and reacts accordingly. I don't think we'd get very good policy out of, out of that. So I think we just live with the possibility that sometimes they're at loggerheads, hopefully not that frequently, but, but it remains a possibility, I think.

**Donald Kohn** [00:50:57] And you point out in your book, when I agree with this entirely, that the late sixties, the sixties entirely, but particularly the late sixties with Johnson and the Quadriad, where the Fed was part of the administration forecasting process and felt it had to buy the administration's story, this was, it compromised its independence and it, and it constrained it from doing the right thing—

**Alan Blinder** [00:51:22] A bit. But yes, a bit. But I think Martin sometimes gets a bad rap for that because he did stand up to Johnson.

**Donald Kohn** [00:51:28] To some extent, right?

**Alan Blinder** [00:51:30] Well, to a considerable extent. I mean, he, I recount in the book, I looked up the newspaper accounts at the time to get it right, that this incident where he was, Martin, was, quote, invited to the Johnson Ranch in Texas for a barbecue. And you can guess who got barbecued. Right. And then he went and he raised the discount rate the, shortly thereafter. I don't remember the exact timing. So, you know, that to me didn't look like Federal Reserve chair, and John, look, remember, you're talking about Lyndon Johnson. This was a force of nature he was dealing with, a lot of people bowed to Lyndon, Lyndon Johnson. So I think the, the criticism that the Fed was probably too easy in the late sixties has some validity to it. But I don't see that as a, you know, like a total cave in to the, to the White House.

**Donald Kohn** [00:52:35] All right. Let's take a few questions from the audience. Yeah, hi. State your name and make sure it's a question and brief, please.

**Audience Member** [00:52:46] Nicholas Veron, at the Peterson Institute across the street and at Google in Brussels. I was very intrigued by your description of productivity trends and the fact that they cannot be forecast. Can they be explained ex-post? Is there a way to make sense of what happened and how would you do that?

**Alan Blinder** [00:53:06] The answer is sometimes. So let me give you two examples. I lecture on this to my economics 101 students. I think we have a pretty decent understanding of the big acceleration of productivity growth starting in the mid-nineties. About that, the very short version is businesses learned how to use computers. They had them before, but like with the steam engine, they hadn't quite figured out how to make use of them well. And they, they figured that out. And there was a big surge in productivity, and also a huge drop in the cost of these things. On the other hand, we're still sitting here in the year 2022, not really understanding why productivity and productivity growth dipped dramatically after, say, 1973, an episode that Don was pointing out, you know, there was absorbing a lot of new labor. And, you know, you can, you can come up with crumbs here and there. But that was a big event. And to my mind, it's not been explained.

**Donald Kohn** [00:54:19] Though I think an interesting point here is that Alan Greenspan caught that thing, that deceleration, and this is the—

**Alan Blinder** [00:54:26] The nineties.

**Donald Kohn** [00:54:28] Deceleration early before everyone else. And conventional economists like myself and Alan Blinder were highly skeptical of these things, so it—

**Alan Blinder** [00:54:38] So I remember that episode well. I was sitting there listening to some of Greenspan's perorations about— you were there, too—

**Donald Kohn** [00:54:45] Yes.

**Alan Blinder** [00:54:46] About the new, the new economy. And I'm thinking, I'm running regressions back in the office and I'm seeing a T ratio of less than one. I want to see it over two. And then I'll believe there's a break in the productivity trend. But Greenspan was not waiting for that. He was way, way ahead.

**Donald Kohn** [00:55:03] Claudia.

**Audience Member** [00:55:07] Claudia Sahm.

**Donald Kohn** [00:55:08] Wait for the mic, Claudia.

**Audience Member** [00:55:11] Claudia Sahm. So my question is a follow up on asking about the U.K., the mini budget debacle, Bailey strong-arming a government out, all that good stuff. So we're facing potentially a debt ceiling showdown. Is that any kind of parallel in terms of a policy era and how strong and robust are the U.S. financial markets? And if they're not, what does it look like?

**Alan Blinder** [00:55:34] Did you say a parallel?

**Audience Member** [00:55:35] A parallel.

**Alan Blinder** [00:55:36] It's not a, okay. I think it's not a parallel. But our defenses aren't robust enough, as you well know, and as probably everybody in this room knows, when a Democrat is in the White House and the Republicans have control of one or both houses of Congress, they have a history of using the threat of the, the, of a default induced by the debt ceiling. So let me back up the sentence. First of all, you could just shut the government down even if there is no debt ceiling. That's one threat. The second threat is you could actually precipitate a default on the debt, on the national debt. And as everybody else, I think as everyone in this room knows, two things, those forcing a closing of the government usually reacts badly on the Republican Party. Usually people don't like it. This may be a small government society, but they don't like to see closed signs on the national parks and stuff like that. That, that's not to say they won't do it. But we, and this is part of what I meant by saying we don't have great safeguards. They can do it. They can absolutely do it. The default on the national debt is a more serious one. In 2011, you'll remember, and a lot of people will remember, they came so close that S&P downgraded our credit rating. You know, it was a kind of a default, S&P is supposed to grade things on default risk. So this was a kind of a weird default risk that the political system would force a default when there was no reason, no need to do it. And who knows what this new Republican, you know, I'm not going to name names, but I can think of some names in Kevin McCarthy's razor thin majority that might be perfectly happy to do that. You know, some of them tote guns into the House of Representatives. So. So to your question, Claudia, I don't think we have good safeguards. The safeguard is supposed to be responsible legislators. So you can answer for yourself how well we are safeguarded.

**Donald Kohn** [00:58:12] Thank you, Alan. So I'm going to yield to a professional questioner now, Jeanna Smialek and, and the panel. So thanks, Alan.

**Alan Blinder** [00:58:21] I'm staying in this seat, I think.

**David Wessel** [00:58:23] Thank you very much, Don. It's kind of, it's kind of cool to have two vice chairs on the stage here talking to each other, reminiscing about the good old days. I enjoyed it. So we thought that, because, Alan's book is sprawling, I mean, it's not only decades, but it also tries to talk about both fiscal and monetary policy. And in the time we have, we thought it would be better to pick one topic. And since Fed policy is so much in the news now and it's so critical to what happens to the inflation rate, the pace of growth, and the credibility of the central bank, we decided to invite three of the best Fed watchers to join us on stage. Julia Coronado will be on the monitor. Julia is the president and founder of Macro Policy Perspectives and teaches at the University of Texas at Austin. Tim Duy, who flew all the way from the West Coast to join us today, is the chief economist at SGH Macro Advisors and teaches at the University of Oregon. And Nathan Sheets, who was for a time the chief international person at the Fed, is now chief economist at head of global macroeconomic research at PJIM. And we invited Jeanna Smialek, who is a reporter for The New York Times, one of the best reporters covering the Fed, to moderate that conversation. And Alan will remain on stage. So why don't the three of you come up and I'll turn it over to Jeanna.

**Alan Blinder** [00:59:52] Making that list, I'm afraid of the questions I'm gonna get.

**Jeanna Smialek** [01:00:02] Yeah. So I figure we'll start with, start with an easy one.

**Alan Blinder** [01:00:05] Oh, good.

**Jeanna Smialek** [01:00:05] Ask you to predict the future.

**Alan Blinder** [01:00:06] Oh, I see.

**Jeanna Smialek** [01:00:09] So, I think, I think it would probably be useful framing for all of the audience, given that we're talking about sort of the implications for modern monetary policy for everyone on the panel to just kind of give their outlook. What do you think is going to happen with the current inflationary episode? Do you think the Fed's going to pull off the soft landing? Where do you anticipate policy and the economy heading in 2023?

**Alan Blinder** [01:00:29] So I've been asked this question many times, including probably by you, by many reporters. I haven't, I haven't been ducking it. I think we're probably, the likelihood, this is a dispersed probability distribution, let me say that. But the likelihood is, I think, a mild recession. So what I mean by that is maybe the GDP falls by less than 1%. Something, I don't want to be pinned to a number, but mild, not a serious, big, deep recession. And there are a number of reasons for that. Of which I'll just mention two. It's not just these two. One is the still huge amount of unspent money sitting in checking accounts of ordinary Americans that they can lean on to, to tide them over.

And the second one is— and I'm curious if the rest of the panelists agree with me— is relative to history, and I've looked over 60 years in this book, this is, I believe this is a fairly dovish Federal Reserve. This is not a case where— I don't believe— where Jay Powell is going to have to try to hold back a thundering herd that wants to throw interest rates way, way up. They all know the interest rates have to go up, no question about that. But I believe it's kind of a dovish, on the dovish side by historical standards. And the evidence for that that I would put forward, other than just who these people are, is the number of people that are already talking about the danger of overshooting. So the super hawks don't talk about the danger of overshooting.

**Tim Duy** [01:02:33] So I, I've been hard pressed to see that you end this episode without a recession, you know, for, for a couple of reasons. One of which is, I think the excess saving thing or excess capacity is real and that, you know, that you probably will not be able to reduce demand sufficiently, you know, without sort of creating a downdraft in, in the economy. I'm also in favor of the, the mild recession story, you know, it kind of cuts both ways on the, on the savings. At least have some something of a cushion you're working off as you work it off.

And also, I think the demographics are actually in favor of the economy right now, the aging, the millennial population into the, into their home, the home, the home buying years and their prime earning years. And that's something we didn't have in the last cycle. The last cycle, you know, after

20, 2009, was really the transfer from the boomers to the Gen Xers. And the Gen Xers was a smaller, smaller group. I wasn't, and obviously the millennials at that point weren't demanding housing. So I think that there's actually some strong underlying base for that, for the economy. Yeah, I guess I have in the back of my mind something more like, you know, the, the either the 1990 recession or the, or even the tech, tech bubble. There's certainly some, some similarities there. It's certainly not what we had in 2007, 2009.

**Jeanna Smialek** [01:04:06] Nathan.

**Nathan Sheets** [01:04:09] Well, take note. Three economists agree.

**Tim Duy** [01:04:13] Well, it's gotta be wrong.

**Nathan Sheets** [01:04:13] Yeah, exactly. But I'm essentially in the same place, a expectation of a mild recession in the second half of next year. And essentially what's going to happen is the Fed is going to have to tighten policy sufficiently to slow services expenditure, which right now is, is very hot and hence slow the labor market. Yeah. Our best guess is that's likely to require a Fed funds rate likely somewhere in the mid fives. Could it migrate up a little bit from there? Absolutely.

More upside, I would say, than downside risk to that expectation. I really like Alan's characterization of this Federal Reserve being, being dovish. And I think that the question that I would have in that discussion is, if you frame it relative to, say, the last 20 years, this feels to me like a pretty hawkish Federal Reserve in the pace and the rhetoric and so forth. But in the context of the sixty years of monetary history that you studied compared to the Federal Reserve's 30, 40 years ago, your point that maybe this is is reasonably dovish is in my mind very well taken.

**Alan Blinder** [01:05:42] Yeah. And that's the frame I had in mind. Yes.

**Jeanna Smialek** [01:05:45] Julia.

**Julia Coronado** [01:05:48] Is it my turn, Gina?

**Jeanna Smialek** [01:05:50] It is, yes. I don't know if you can hear me.

**Julia Coronado** [01:05:53] Hard to pick up on the cues. So I'll be a little bit different here. Our baseline forecast isn't a recession next year, although certainly the probabilities are elevated. And actually, I think there's been some good news that kind of leans more in favor of that, you know, skirting a recession, you know, of late. In particular, you know, some of the supply side issues do look better. And in particular, some of the elements of inflation that are tied more to those supply side developments are looking better. So core goods inflation is moderating.

And, and one of the most significant developments of late has been in the, in the housing sector and in the multifamily housing sector and the rental sector right now, which is, we are seeing a moderation in rent. It's relatively early, but it's been very quick, very abrupt change from an environment characterized by excess demand to an environment characterized by excess supply and downward pressure on rents. If that continues, that's pretty material for the Fed's the, the inflation that the Fed targets. Of course we know there's lags it won't sort of fully materialize until mid-next year.

But nonetheless, it's an illustration that we've just experienced some pretty extraordinary shocks to the system. And the dynamics are very hard to calibrate. And an abrupt change in rental pressures from upward to downward pressure is, is an illustration of that. And that could be, should we get that moderation in inflation, that is both on goods, leading indicators of rents, we've seen some moderation in wage inflation, all of which is not tied to an absolute weakening in the labor market. We have seen conditions, you know, moderate some, and the demand supply balance in the labor market become a bit more toward balance. But, you know, these are not, this is not hot rising unemployment. This is an economy that's starting to recalibrate and settle into these new dynamics.

And I think the other thing on the housing side is that it illustrates that this isn't just about the Fed funds rate. This is also about the balance sheet policy. If we look at mortgage spreads to treasuries, for example, they are at the wides very close to the peaks of 2009 and 9, even though the credit quality in these mortgages is very good. So it's, it's, the Fed is accomplishing a tremendous amount of tightening very quickly. The interest sensitive sectors, including multi-family housing, are responding. And so, you know, I think we're still in a very tremendously uncertain time. But I see for the reasons that the other side of the household sector is just in phenomenal shape. It's just in great shape. Low delinquencies, all of the scarring that we worry about with a recession. We succeeded in eliminating some of that scarring. People didn't have long unemployment spells. They didn't lose their cars to repossession. They, you know, they're, they've got cash on hand, that, that bodes well, particularly if some of the leading indicators of inflation are moderating.

**Jeanna Smialek** [01:09:33] Great. That's actually a great lead in for my next question, which is a big argument of your book, is the 1970s resulted in this sort of backlash against Keynesianism that, based on your book, wasn't always entirely deserved. And I wonder if you think this episode will result in a similar backlash because of the inflation or whether that sort of positive legacy that Julia just brought up is more likely to be the one that carries the day?

**Alan Blinder** [01:09:57] No, I think that it's not unlikely that there'll be a backlash against Keynesianism. And the reason that I say, in the popular image, well, let me go back. Most people never heard of Keynesianism and they don't have any idea what it is. Let's just think of the populations that's ever heard of that word or thought about it even for a second. Tiny sliver of the population. It tends to get identified with fiscal policy more than monetary policy, even though the Fed is just as Keynesian as anybody else. And what you, we're already seeing, and I don't think it's going to disappear into the ether is, I alluded to this before, an excessive proportion of the, of the blame going to fiscal expansion. I think it deserves some small portion, but small, and I wouldn't be a bit surprised if it got much more blame than it deserved, then that will be taken to be a black mark for Keynesian policies, which, after all, were telling certainly the Trump administration in 2020— and I think I would argue the Biden administration in 2021— to give a little juice, or a lot of juice. Maybe it was too much. I don't want to dismiss that. But let's just forget the adjective. Give juice to the, to the economy. And for that reason, I think some people at least are going to blame Keynesianism.

**Jeanna Smialek** [01:11:44] Interesting. Interesting. That was a obviously relatively specific question, but a broader one that I'd like to ask the entire panel is we do seem to, your book traces a number of different economic regimes, the low inflation headed into the sixties, the high inflation of the seventies, the period of bringing that inflation down, and then the too low inflation of the 2020 tens. I wonder if you think we're in a new economic regime. Are we likely to go back to the lower for longer low inflation regime? Where are we headed?

**Alan Blinder** [01:12:14] I think we're, I think, what I can't feel confident is we're headed for much lower inflation than we have now. So that's easy. Are we going to go back to a, of an era where the Fed was trying to raise the inflation rate? I think that's a long time into the future if ever, you know, you get past the decade or something, I mean, why bother to make prognostications, that's the case since we don't know that. So let me, so let me just put it more positively. In the next decade, if the Fed is back to inflation is too low and we need to raise it, I'll be shocked.

**Tim Duy** [01:12:54] Yeah, I would be, I would be surprised, too, if, if we got that situation, partly because I think, I don't think the Fed's going to try to, you know, actually push inflation under 2%. I think they'll probably air on the side of slightly higher inflation going down. So they're not going to, I don't think you're going to, once you get inflation down to, say, two and a half percent or something, I don't think they're going to be especially aggressive at trying to drive that lower. In fact, I think there might be some wariness because you don't want to end up back sort of in that situation where you're trying to raise inflation. So I'm optimistic that we don't end up in that cycle again.

**Nathan Sheets** [01:13:34] I'm in a somewhat different place on this question. I think it's helpful to go back to the pre-pandemic period and say what were the factors that were driving the economic performance that we saw, which I would characterize as restrained growth, low inflation and low rates. And my sense is that we went through that, that post GFC pre-pandemic decade with a global lack, a dearth of aggregate demand. And I think the question is, well what were the structure, in my mind, structural factors that were in play during that period and are they likely to continue to be in play? Now when I think about implications, what was driving that, I would put aging demographics very high on the list. And I think the empiric suggests that as economies get older, they become less dynamic and, and aggregate demand shrinks. You know, back in the day, we would have said, well, monetary policy can offset that. But we saw through that period that when you're pinned against the zero lower bound, it's pretty tricky.

Now moving forward from here, the question I have is how, what has happened over the last three or four years that have caused those structural factors to recede? I don't have a good narrative here. So a low rates kind of restrained inflation restrained growth world is my baseline. Is it possible that maybe through factors I don't fully understand that this episode has more persistence in inflation expectations, or Tim, as you say, in Fed policy, yes, that's possible. Is it possible that we have some full blown de-globalization that is disinflationary or inflationary? I would say that's also possible. But at the end of the day, what was driving globalization, it was the opportunity for firms to be more efficient and ultimately for firms to be more profitable and investors to make money. That's a pretty powerful, powerful incentive. So I have some problems with the deglobalization, though it's a possibility.

So my baseline is, is lowish inflation. I won't fall on my sword that it's two or two and a quarter, but that the post-pandemic period looks and feels a lot like the pre-pandemic with some of these upside, the persistent stuff of this episode or de-globalization or we can talk about net zero. Some of those things probably are upside risks.

**Jeanna Smialek** [01:16:17] Julie, I wonder if.

**Julia Coronado** [01:16:20] Should I jump in, Jeanna?

**Jeanna Smialek** [01:16:21] Yes, please.

**Julia Coronado** [01:16:23] Yeah, I was going to build off what Nathan said. I think one of the, the differences between last cycle and this cycle is that one of the persistent headwinds to growth, to inflation, was that consumer deleveraging, you know, consumers were going through this massive balance sheet shock and rebuilding and restoring, and they were incredibly price sensitive and just incredibly cautious even as the unemployment rate fell, which I think, you know, I see that, I completely agree with Nathan in terms of the structural demographic drivers are still there. We're in a world of very low growth. It's spreading everywhere now. Now, China is in the same boat as us. So we don't really have, you know, engines of growth. We have an older, you know, slower growing population. But we don't have that deleveraging. We do have healthier balance sheets. We have learned that fiscal policy, fiscal policy can be quite powerful when you deliver it directly. And we've actually learned,

I think the monetary policy is more powerful outside the deleveraging cycle. You know, the Fed's policies were able to lower mortgage rates to all-time lows. Everybody refinanced. That was cash in their pockets. The Fed used supervisory policy and turned off loan payments. And millions of people didn't make mortgage payments for six months with no fault fallout on their credit scores like, wow, you know, this was really powerful stuff that ended up, you know, contributing, I think I put a little bit more emphasis on the policy support contributing to some of the inflation we've seen than, than Alan, than Alan does. But I think part of that is good news. Now, we can calibrate this better. We know how to deliver really, really effective policy support when needed. We don't need to go as far necessarily as we went. And that's where I think I hope we kind of think through these, these tools and how they interact with each other, both fiscal and monetary and the various monetary tools and how best to deploy them.

**Jeanna Smialek** [01:18:29] It's an interesting point. And Alan, a big point in your book is that fiscal policy used to be seen really as a sort of across cycle policy, something that fought inflation, something that could be used to stimulate demand in times of trouble. But now it's really just seen as something that could be used to stimulate demand in times of trouble. And I wonder if you think that we should swing that pendulum back or whether you think that's an appropriate role at this stage?

**Alan Blinder** [01:18:54] I think it would be good to swing the pendulum back if we knew how to do it, and I don't think we know how to do it. I don't think it's going to happen. The last time that discretionary fiscal policy was actually used to fight inflation, I'm not talking about the reduce the deficit, to fight inflation, was 1968. Most members of Congress weren't born. Well, maybe.

**Alan Blinder** [01:19:20] But they certainly weren't grownups, and many of them weren't born in 1968. But the political system that they've grown, that they've grown up in is completely one sided. That what you do is every once in a while you have a tax cut when you elect a Republican president, and then you leave it to the Democrats to try to whittle the deficit down if that's their want. But nobody thinks that fighting inflation by fiscal policy is the right thing to do. That's what we have the Fed for.

**Jeanna Smialek** [01:19:56] Interesting. And I guess, you know, as David alluded to during the introduction, you are one of sort of the original champions of talking about the dual mandate in a really sort of employment focused way. I wonder if you think that that focus on employment still needs to be in the balance right now, or one thing that people will often say at the moment is with inflation is high, the Fed's kind of a single mandate central bank. And I wonder, I wonder where you come down on that question?

**Alan Blinder** [01:20:21] No, I think the dual mandate is really important. I think the Fed still thinks it's important. But, but think of the, I mean, this is going to be a slightly wonking out, what, this is the Paul Krugman phrase, but looking at the audience, there are a lot of policy wonks in the audience and especially on the panel. If you think of the costs as being quadratic, roughly speaking, we're at three and a half percent unemployment and depending on, let's just use core PCE around the five plus on inflation against the target of two. So we're just far from the, where we want to be on inflation and maybe right where we want to be on unemployment. And so in a world like that, the policymakers are going to be thinking about what can I do about inflation? Not what can I do about unemployment? Which is very nice, thank you.

But, but the first part of my answer was a corollary of what I said before about this looks to me like a kind of, by historical standards, a dovish Federal Reserve that if the unemployment rate should— this is not my forecast— start going up four or five, six. They're not going to sit idly by like the Federal Reserve did in the eighties and say, you know, that's life. We have to get inflation down. I don't believe they will.

**Jeanna Smialek** [01:21:51] That's interesting. And Tim, I wondered, just given the forecast you gave earlier where you suggested that they're going to stop before inflation is the whole way back down to 2%, is that because of this balancing of the dual mandate?

**Tim Duy** [01:22:00] Yeah, I would, I would agree with Alan. I mean, right now, I think, you know, it's, it's a single mandate only because inflation is, or excuse me, unemployment is so low. I mean, once unemployment starts to move, you know, I think the Fed will readjust its policy and it's not going to sort of, unemployment, go to 8% or whatever, 7% or even 6% maybe in order to get inflation down, you know, exactly to 2%. And I think they would still be worried about the, the overshooting aspect of that. So I'm not I, I, I don't think we're done with the mandate, the employment mandate. I think it's there. And, you know, Governor Waller suggests that, you know, it's, you know, inflation mandate until you get to 5% unemployment. You know, and I think, you know, quite frankly, by the time you're moving toward five, you'll probably be moving quick enough, you know, that, you know, you're probably going to start adjusting policy before that. You'll have a lot more faith, I think, on the way the Fed seems to be thinking about it right now, that inflation will be coming down to, you know, something close to their target under those circumstances.

**Jeanna Smialek** [01:23:05] Nathan, I see you nodding over there.

**Nathan Sheets** [01:23:07] Yeah, I'm a, I'm a big fan of the of the dual mandate and have been for a long time. Every central bank, when it sits down to think about monetary policy, has to think about inflation and it has to think about the implications of its policies for economic activity. And I think that it is much more transparent to just recognize that and make it, and make it explicit.

Another prism that's complimentary into this issue is the behavior and performance of, of single mandate central banks out there. And I think increasingly the view is that the single mandate is tricky. And as they, as they set policy, yeah they want to hit that inflation target. But it's got to be constrained by the realities of what they're doing to the economy. And I think that many, many central banks, if you could, if you could strap their, their governors onto a polygraph and say, would you rather have an explicit dual mandate? I think they would say, they would say absolutely. I think it is a better, a better framing. Obviously, it creates an ambiguity. You've got one tool and you've got to balance it, but you're doing that anyways.

**Jeanna Smialek** [01:24:24] Interesting. And Julia, I wonder where you think this tradeoff between unemployment and inflation is these days.

**Julia Coronado** [01:24:30] I mean, of course, they have a dual mandate and of course, they will be trying to balance that, you know, going forward. I think some of what they're doing right now is a bit of a rhetorical strategy. You know, you need to talk tough and convince financial markets and observers that you're going to do what it takes to keep inflation expectations in check, to keep, you know, your credibility in check. And I think that they've kind of won that battle. There was some question early in the summer when they were still at zero and just ending QE and they had to catch up and sort of talk real tough.

But I think, you know, they did that and we've gotten to a place that's more balanced and they're still you know, they're still trying to play that, you know, lean on that side until they get more evidence. But once inflation is coming down and some of the leading indicators like the rental inflation are saying more progress can be expected. Of course, they're going to be looking at the labor market and trying to make this balance. It's their job. It's their congressional mandate. They would, they would be derelict in their duties if they didn't.

**Jeanna Smialek** [01:25:43] Yeah, absolutely.

**Alan Blinder** [01:25:44] I just had a little codicil to that point. People on the Fed remember, as many people remember, a central banker once said, we will do whatever it takes and it will be enough. Every central banker remembers that.

**Julia Coronado** [01:25:59] Yes.

**Jeanna Smialek** [01:26:02] I'm going to ask one more question before we go to audience questions. But I think in light of the answer you just gave, I'm really curious whether there's a risk of repeating the 1970s, 1960s experience, because obviously it is the case that they're balancing these two risks. Back then, as you, as you noted earlier, with the stagflation area period, we saw central bankers not really know how to strike a balance between unemployment that was shooting up, inflation that was coming down a little, but never quite enough. You know, I wonder if there's a risk of that kind of stop and go policy if you are trying to balance these dual mandates.

**Alan Blinder** [01:26:36] I mean, yes, there is always a risk. You can make a mistake. But I, that's not one of the risks that worries me very much. I think the Fed understands the dual mandate, believes in it, but needs to talk tough. This is what I was underscoring. They understand they need to talk very tough to convince the markets that they're serious about it. And by the way, no one's mentioned this. Inflationary expectations as registered in financial markets have barely moved an inch. We've got all this inflation and the financial markets, if you look at what's embedded in the five year bond rate, ten year bond rate, things like that, it really hasn't moved. I mean, and that's controlled by rhetoric, basically. You know, the actions have to be broadly consistent with the rhetoric, but basically controlled by rhetoric because nobody knows what the inflation rate is going to be ten years from now. And that part of that is Federal Reserve talk.

**Jeanna Smialek** [01:27:36] Interesting. Interesting. Okay. I think we can open it up—.

**Julia Coronado** [01:27:39] And action. They did have to follow through on some of those.

**Alan Blinder** [01:27:41] Oh, yeah.

**Alan Blinder** [01:27:42] And they did, right. They did deliver a lot of big, big rate hikes, so.

**Alan Blinder** [01:27:48] Yeah.

**Jeanna Smialek** [01:27:49] Yeah, absolutely. I think we can actually open it up to a couple of audience questions now we have about 10 minutes. I'll jump in if we don't have enough and ask a few more. But, you know, does anybody have any questions? I've got Howard.

**Audience Member** [01:28:06] Howard Schneider with Reuters thanks for this, up to whoever wants to take it. Interested in your thoughts about the, we seem to be at this moment of particular unanimity in the language coming from the Fed. You've had one dissent in a period of very dramatic change and a lot of very shared language among the policymakers, hawk or dove. I'm wondering, do you think that's a weakness of the system, a product of the moment we're in right now, or deference to Powell?

**Alan Blinder** [01:28:33] Let me take that. Maybe everyone may want to take that. I think it's mostly about the circumstances. It's more than a moment that's been going on for a while. It's been very clear what the Fed has to do. You know, the details can be quibbled about, but it's been very clear what the Fed has to do. I think we may be coming soon to a point where the Federal Reserve members of the FOMC don't look all agreed. They still are. No one thinks we should stop where we are. But I don't think it's too far in the future. If things play out the way most people think, they'll play out, we may start seeing some hawk dove disagreements about either what we do or what we say or both.

**Tim Duy** [01:29:21] Yeah. So I would agree that, you know, it is a product of the circumstances. Everybody knew they had to get higher, you know, more quickly. I do think, though, that the chair has been helping to guide that and hold that consensus together and guide that consensus. And you kind of seen this, you know, ahead of you know, ahead of Jackson Hole, right. When you started to see some, some Fed speaker say, well, maybe 30, maybe 50. Right. I mean, you saw that again ahead of September, where I think that the chair was, in fact, grabbing, you know, grabbing everyone and pulling them into, you know, a consensus, helping guide that consensus. So I think it's certainly been going more, more underneath the surface, not necessarily about the need to get rates up, but maybe about the speed and the pace and more consensus building internally.

**Nathan Sheets** [01:30:12] I would say that even more than the circumstances right now, what's, what's driving this is the Fed's culture relative to, say, the Bank of England, the FOMC just has never really had the same tradition of vigorous dissent. And so I think that that's significant. Maybe it's being reinforced by, by the circumstances. And then I think there's a final reality here, and maybe this is just another form of circumstances when the situation is this dynamic and it's in flux to the extent that it has been, and you're having a series of discussions and negotiations and you're faced with a culture that discourages dissent. Why do you want to burn your political capital by dissenting at one meeting? Because by the next meeting, if you're right, your colleagues are going to say, whoa, you were right at the last meeting and you're going to be even more influential.

So I think a lot of it is the dynamics of, of the group interactions coupled with the tradition of they're not really being a dissenter. If you do, you're really separating yourself from the group. I do think it's interesting, as was mentioned, if we get to a place where the Fed has taken rates to a level where they say, well, we're going to kind of, kind of look around, whether at, whether at that point where things are feeling a little bit more kind of in stasis, whether we'll start seeing more dissents, but you'd still have to wait, the reality is nobody wants to do it, especially members of the board. I mean, can you imagine, you know, in the media how that would play if a member of the board dissented from, from Chairman Powell, that would be seen as first order.

**Jeanna Smialek** [01:31:56] Julia, I wonder if you have thoughts.

**Julia Coronado** [01:31:58] Yeah, I agree with what Nathan's saying, it’s kind of the structure of the institution. And Howard, to your question about whether that's a weakness, I don't think it precludes the actual, you know, differences of opinion and a vigorous discussion at the table. I'm pretty sure those occur. And, and then as Alan said, I would expect as we get out of the maybe acute moment, there will be people that maybe openly disagree with each other a little bit more and feel a little bit more free to do so and maybe even encouraged to do so through Howell's leadership, because it just shows the, you know, that all sides are being kind of represented in the decisions that are being made. He's always, you know, talked about how the differences of opinions are a strength and they welcome them. And, you know, I do think that that debate happens at the table and, and we see it in Fed Speak. Right. We do see differences of opinions in Fed Speak. It's just as Nathan was laying out, it's kind of like to go all the way to a dissent, well, that's just downright rude. And, you know, in some ways. And, and so you, you express yourself. And as long as you're heard and that's being taken into account, then you, you can defer to the chair.

**Jeanna Smialek** [01:33:13] Rich.

**Audience Member** [01:33:18] Thanks, Rich Miller. Thank you very much. This has been great. Thank you. I wonder if you could comment not on monetary fiscal policy, but on financial stability. If, I think if you had told people a year ago that the Fed would be raising interest rates, you know, four times by 75 basis points, most people think would have expected a lot more breakage in the financial system. I'm wondering if, you know why that hasn't and does that portend us getting through this period relatively, we have breakage in the crypto market, but I'm talking about something like financial stability threatening banks.

**Tim Duy** [01:34:02] I'll start. So actually you mentioned that the breakage in the crypto market, but that, that might be sort of part of the answer here is that that was a relief for speculative activity that was not tied to traditional finance. And so when it started falling apart, you know, your speculative activity, I hate to say this word, was contained, you know, away from the broader financial markets. You can sort of, one view of this, too, is that, you know, Dodd-Frank made the financial markets much more stable and more resilient over time. And we didn't have an asset, you know, misallocation in the, you know, the traditional finance markets like we had during the housing bubble. And so you could go a long ways without actually, quote unquote, breaking anything.

So it is actually quite, quite, quite interesting. And, you know, if you believe in it and I think there's room for this that that, you know, the, the sort of the most severe recessions are going to be ones that are aggravated by a financial crisis at some point where you really do shut down credit following the economy. Then this is another reason that it's, it's harder to see a deep recession, you know, coming out of, out of this tightening cycle.

**Julia Coronado** [01:35:17] I would, I can jump in here, too. I think that's a great question. And I think we were starting to see actually some cracks that were quite worrisome. And I bet when the minutes come out later this week, we are going to see a vigorous discussion around financial stability. And that was probably a contributor to the decision to slow down the pace and take a little bit more time. You've, you've gone at breakneck speed long enough. The pressure that put on the dollar, the leverage that went into dollar backed trades against other currencies, was getting quite intense after the September meeting. Obviously, you know, you, the U.K. is, you know, to blame for its own decisions.

But the, the amplification, and that's the word Vice Chair Brainard used during the IMF week, you know, you don't want that kind of amplification that can be, you know, attributed to, at least in part, by the speed at which the Fed was going. So I think that there was a decision to kind of restrategize in the interests of financial stability. You still need to get policy to a restrictive place. You still want it to be, you know, your, your, your end point maybe hasn't changed or maybe even gone a bit higher, but you can go slower, both because of lags in policy and because there was lots of, you know, worrisome signs in global capital markets, excuse me, that, you know, why break something if you can avoid it? So I do think that that, that has been a consideration of late.

**Nathan Sheets** [01:36:51] I would agree broadly with the characterization that the adjustment of financial conditions has occurred in a pretty smooth way so far. But I think as, as Julia was, was highlighting, the concern I have is these, these shifts in financial stability conditions don't happen incrementally where they gradually mount. They tend to be sharp and non-linear. And so it's really hard to know how close or not close we may be. We did see financial stability, financial market stresses erupt in a big way, fairly unexpectedly in the U.K. And I think that that is, that is something of which I think all of us should take note.

I think also key questions about the ability of, of the financial sector to intermediate, particularly in financial markets, and provide, provide necessarily liquidity. You know, so far we've been able to get through, it's been a little rocky at times, as Julia said. But could we hit a place where that, where that breaks? A final point I would make is that many of the folks in the markets that I, that I talk to, I think would also be quick to emphasize that so far we've been operating in an environment in which the Fed's balance sheet is still large, and liquidity and conditions, broadly speaking, are still pretty favorable. And the QT elements and how that's going to play through over the next year or 18 months is something many of them are watching very closely. And that could ultimately be a driver of financial stability risks as well.

**Alan Blinder** [01:38:44] Let me just say, Rich, the thing we always have to worry about are the unknown unknowns, there may be something lurking out there that we're not aware of or thinking of. That's why the Federal Reserve and the Treasury have people that are supposed to watch, be looking at all of this stuff. But I'm reasonably optimistic for the following reason. This is partly because of Dodd-Frank and partly because financial institutions, serious ones, I don't mean FTX, got their fingers badly burned in the financial crisis, that the financial system that we went into this horror show with was much less leveraged and much less reliant on overnight liquidity that had to be turned over all the time. Those were two of the really big, weak links that we had in two, you know, going into 2007.

And I offer as evidence for this, we had a kind of a stress test. The Federal Reserve shot interest rates up really fast, just about faster than they ever have before in history. And the apparent damage from that to the financial system looks, you know, pretty minimal. I don't want to say zero, but pretty minimal. And as a as a sidebar to that, look at the housing boom that we had. We had a housing boom that actually on the price of housing was bigger than the craziness that happened in 2003, four, five, six in terms of what happened to house prices. But there were no ninja loans, no money down 3% mortgages. We just, the finance system just didn't do those things. So it's nice to think that somebody learned something from a bleak episode of history.

**Tim Duy** [01:40:42] It would be interesting to see if we start getting some of those back now with interest rates very high, see if somebody would try to find a product at this point.

**Alan Blinder** [01:40:51] Well, it looks like pretty risky right now.

**Nathan Sheets** [01:40:52] Yeah it does.

**David Wessel** [01:40:52] Jeanna, before we end, I wanted to give, there was one audience question that came in over the Internet that I wanted to pose, at least to some of the panelists before we have to close. And it's basically someone said, come on, the fiscal policy in March 2021 was much bigger than the Fed expected. They didn't react. Inflation, there were signs that inflation was going to be more persistent and they didn't react. Was the Fed too slow to act because of the, the new policy framework or the forward guidance that said, we can't start raising interest rates until the, we've stopped buying bonds. In other words, at the margin— obviously a lot of the inflation is COVID and Putin related— but at the margins, did the Fed, with the benefit of hindsight, react too slowly.

**Alan Blinder** [01:41:41] I think the answer to that is clearly yes and Jay, if you asked this to Jay Powell, he would say yes. I mean, the Fed has admitted that it reacted too slowly. Now why is a reasonable question. But I think the new policy framework, which basically said we're not shooting until we see the whites of inflation's eyes, had something to do with that.

**Julia Coronado** [01:42:05] And I like to add to that, we were in the middle of a pandemic. And the first statement, if you look at the first sentence of the policy statement throughout that, you know, it was kind of like we're going to do whatever it takes to get this society through this pandemic. You know, if it had just been, you know, kind of a garden variety recession, I hate that term, but I'm going to use it anyway. You know, would they have responded faster even with the new framework? Possibly. And then the other thing I would like to add is, is there's this complication with, with the balance sheet that they're still figuring out how to use this tool. I think it's pretty clear that at least they could have slowed and stopped QE a lot earlier, even with the promise in their, in their statement. And that probably would have, you know, done something to, to remove some of the accommodation a bit earlier.

**Nathan Sheets** [01:43:01] The, the putative rationale for QE was to facilitate financial market functioning. And I can assure you as someone who's participating in the financial sector, financial markets in 2021 were operating just fine.

**Julia Coronado** [01:43:18] They were functioning. Yes, they were functioning.

**Nathan Sheets** [01:43:19] Anything a little frothy.

**Tim Duy** [01:43:21] Even the latter half of 2020, you can argue that too.

**David Wessel** [01:43:25] So with that, I want to thank Alan Blinder for coming down. Our panelists Jeanna, Tim Duy, Nathan Sheets, and I'm glad our technology works so Julia could join us today. I want to remind you all that if you're in the room, copies of the book are going to be at the table outside. And I believe Alan's agreed to sign them. And let's see, what is the, what is the list price here Alan? Whatever it is, it's $10 off here and I'm sure it's available on the Princeton University Press if you're not here. I want to thank all of you for coming. And one last favor if you have papers or coffee cups, if you put them in the garbage can at the back, we'd appreciate it. So thank you all.