

“When the Fed Sneezes, Who Catches a Cold?”  
Dedola (ECB), Rivolta (Brescia), and Stracca (ECB)

Discussion by  
John Rogers  
Federal Reserve Board

- Question is extremely relevant

“Global Monetary Policy: A View from Emerging Markets”,  
Brookings Institution, April 2014



Hutchins Center  
on Fiscal & Monetary Policy  
at BROOKINGS

**Gov. Rajan:** A good way to describe the current environment is one of extreme monetary easing through unconventional policies. A sizeable portion of the effects of such policies **spillover across borders**, sometimes through a weaker exchange rate. More worryingly, it prompts a reaction. Such competitive easing occurs both simultaneously and sequentially and both advanced and emerging economies engage in it. To ensure stable and sustainable growth, the international rules of the game need to be revisited. **Our attitudes towards [QE and sustained exchange intervention] should be conditioned by the size of their spillover effects.**



**MR. BERNANKE:** A couple of really quick things -- first, just on consultation -- as you know, the Fed Chairman or Vice Chairman meets with emerging market governors at least eight to ten times a year, at the BIS and other contacts, to explain policy and to hear comments. So, there's an awful lot of consultation. Secondly, I think a lot of what you've been talking about today just reflects the fact that **you are very skeptical about unconventional monetary policy.** As you say, the rules of the game should prevent policies with "large adverse spillovers and questionable domestic benefits." I mean, if you have a different empirical assessment, as Vitor and I do, and you think that these are effective policies -- and that, in fact, emerging markets are probably better off than if these policies were not being used -- you would have a different view. And so **I think there's an important empirical question here.**

“When the Fed Dispenses Medicine\*,  
Who Else Recovers?”

Dedola (ECB), Rivolta (Brescia), and Stracca (ECB)

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\*even if only at home

Impressive piece of work!

- Perhaps over-engineered?

My Discussion

- Quick Summary
- Quibbles and Suggestions
  - VAR set-up and 2-step estimation
  - Sample period
  - Spillover Items of interest
- Remarks for future

# Quick Summary

- 2 Step Estimation

(1) Identify U.S. monetary policy shocks using sign restrictions in a 13-variable monthly Bayesian VAR. Desiderata = mimic Gertler and Karadi (2014) IRFs (U.S.)

(2) IRFs for real, nominal and financial variables for heterogeneous group of advanced and emerging market economies by **estimating ARDL models**

- Group countries

  - Income level, exchange rate regime, capital account openness, dollar exposure (Shambaugh (2004), Miniane-Rogers (2007), Georgiadis (2015))

- Key findings

  - Tighter (looser) US policy spills over to foreign economies via lower (higher) real activity
  - Differential effects in AE and EME. Only EMs experience capital outflows, domestic credit crunch and falling house prices
  - Floating exchange rate regime offers some degree of insulation

# Quibbles and Suggestions

## VAR Set Up

- Step 1 VAR
  - How precisely are the monetary policy shocks identified?
    - Are there other parameters that have high posterior probability and that imply very different monetary policy shocks?
    - Are the shocks forecastable?
  - Why not simply use Gertler-Karadi identification?
    - Already one of the robustness checks
    - Much to gain
    - Rationale: orthogonality to foreign MP shocks?

- Step 2 ARDL-based IRFs
  - Why split the impulse response analysis into responses directly estimated in the VAR and those via the "auxiliary" regression?
  - Why not put all the variables in one VAR?
  - If that is too many parameters, include one foreign country in the VAR at a time (Miniane-Rogers, 2007; RSW, 2015).
  - Does cross-country averaging wash out sizable and significant responses that go in opposite directions?
  - Macroprudential policies as basis for another country grouping?

- Sample period 1980-2013
  - Authors check robustness to omitting 2008-13
  - Is omitting ZLB period a good thing or bad thing?
  - What world are we in? More below

Gov. Rajan

On the timing of UMP beyond its acknowledged successes immediately at crisis time: The key question is what happens when these policies are prolonged long beyond repairing markets – and there the benefits are much less clear.

- Spillover Items of Interest

- In the final results, do we not want to know about **volatility**?
- Do exchange rates **overshoot**?
- Incorporate spreads, risk premiums, etc. Address **low for long** considerations.

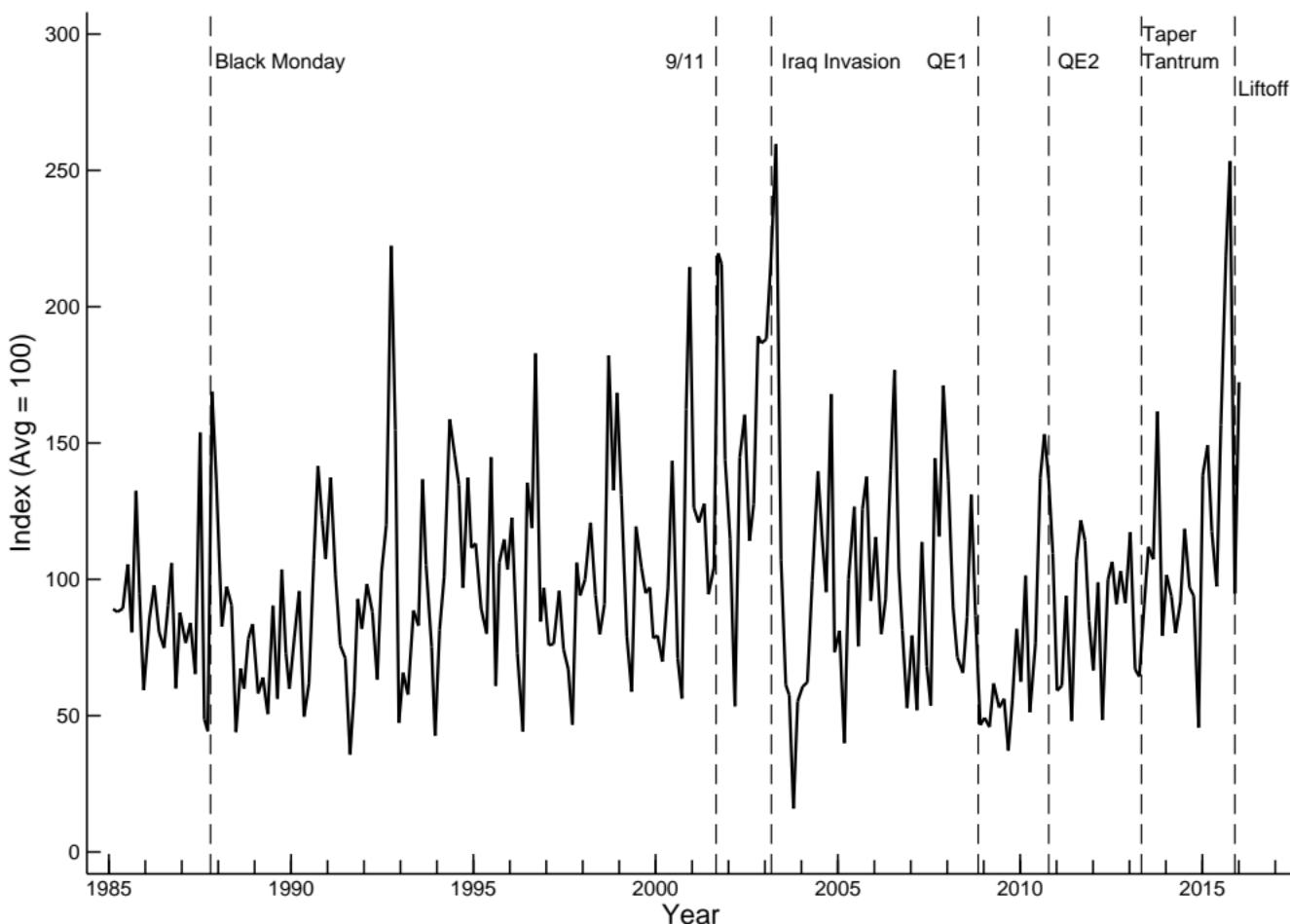
## Remarks for Future

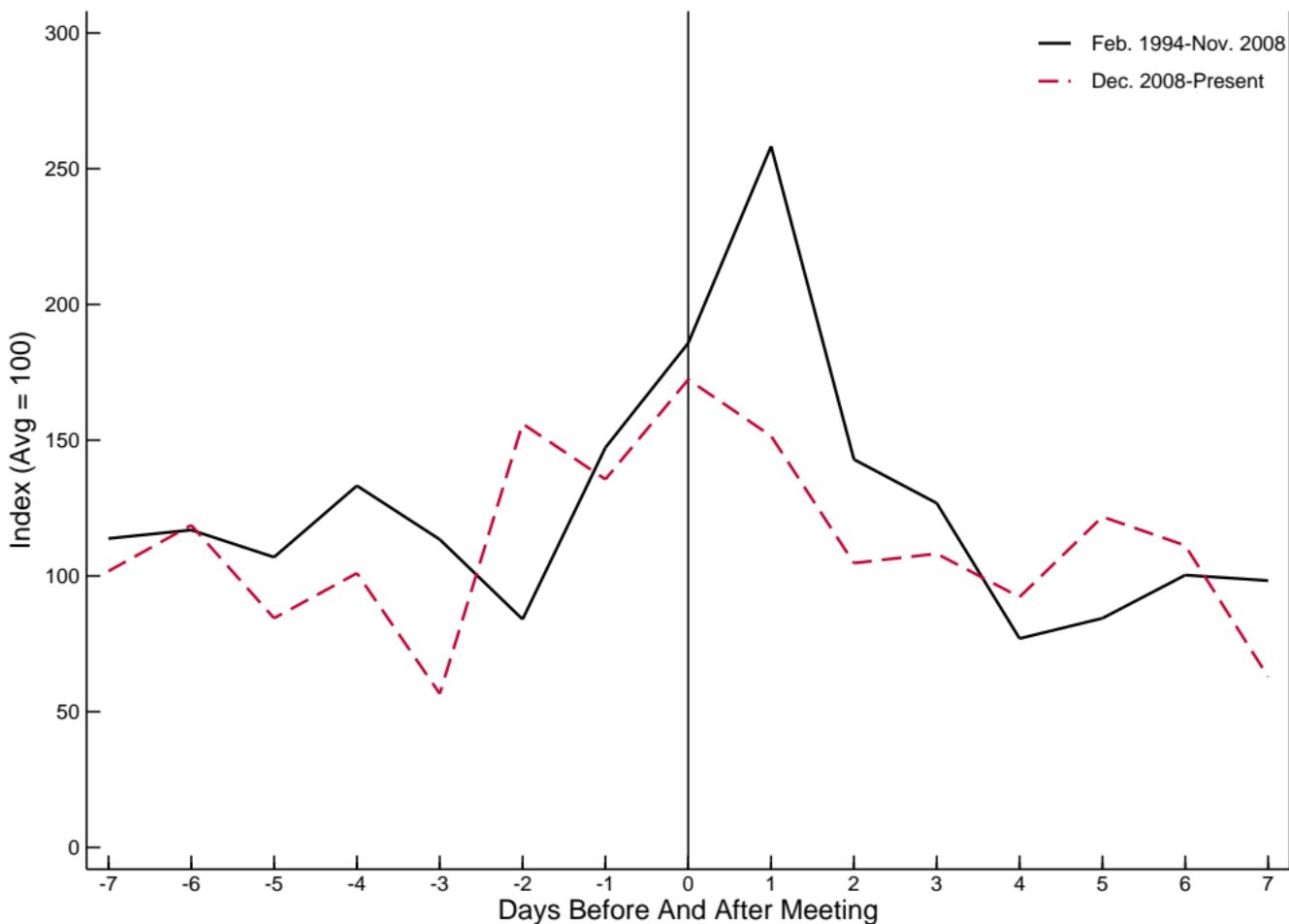
What shock are we looking for?

- Different approaches, DRS at the frontier
  - DRS do NOT use external instruments (bit convoluted)
- What to do with the ZLB?
- What was “the shock” in Fall 2015 in the prelude to liftoff?

## Monetary Policy Uncertainty (Husted, Rogers, Sun)

- Construct New Measure (text-based)
- Evolution of Monetary Policy Uncertainty around FOMC meetings
- Calculate “path surprise” and (orthogonal) “uncertainty surprise”
- Estimate IRFs from shocks to MPU (external instruments)
- Compare with IRFs from GK-type monetary policy shocks





# What will the world look like for monetary policymakers?

Larry Summers

I would like nothing better than to be wrong as Alvin Hansen was with respect to secular stagnation. It may be that growth will soon take hold in the industrial world and allow interest rates and financial conditions to normalize. If so, those like Ben who judged slow recovery to be a reflection of temporary headwinds and misguided fiscal contractions will be vindicated and fears of secular stagnation will have been misplaced. But throughout the industrial world the vast majority of the revisions in growth forecasts have been downwards for many years now. So, I continue to urge that it is worth taking seriously the possibility that we face a chronic problem of an excess of desired saving relative to investment. If this is the case, **monetary policy will not be able to normalize**, there will be a continuing need for expanded public and private investment, and there will be a need for global coordination to assure an adequate level of demand and its appropriate distribution. Macroeconomists can contribute by moving beyond their traditional models of business cycles to contemplate the possibility of secular stagnation.

## Paul Krugman

Japan now looks like an economy in which a negative natural rate is a more or less permanent condition. So, increasingly, does Europe. And the US may be in the same boat, if only because persistent weakness abroad will lead to a strong dollar, and we will end up importing demand weakness. And if we are in a world of secular stagnation — of more or less **permanent negative natural rates** — policy becomes even harder.