



EUROPEAN CENTRAL BANK

EUROSYSTEM

Working Paper Series

Gianluca Benigno, Luca Fornaro Stagnation traps

ECB - Lamfalussy
Fellowship Programme

No 2038 / March 2017

Disclaimer: This paper should not be reported as representing the views of the European Central Bank (ECB). The views expressed are those of the authors and do not necessarily reflect those of the ECB.

Lamfalussy Fellowships

This paper has been produced under the ECB Lamfalussy Fellowship programme. This programme was launched in 2003 in the context of the ECB-CFS Research Network on “Capital Markets and Financial Integration in Europe”. It aims at stimulating high-quality research on the structure, integration and performance of the European financial system.

The Fellowship programme is named after Baron Alexandre Lamfalussy, the first President of the European Monetary Institute. Mr Lamfalussy is one of the leading central bankers of his time and one of the main supporters of a single capital market within the European Union.

Each year the programme sponsors five young scholars conducting a research project in the priority areas of the Network. The Lamfalussy Fellows and their projects are chosen by a selection committee composed of Eurosystem experts and academic scholars. Further information about the Network can be found at <http://www.eufinancial-system.org> and about the Fellowship programme under the menu point “fellowships”.

- Krugman, Paul (1998) “It’s Baaack: Japan’s Slump and the Return of the Liquidity Trap,” *Brookings Papers on Economic Activity*, Vol. 1998, No. 2, pp. 137–205.
- (2013) “Secular Stagnation, Coalmines, Bubbles, and Larry Summers,” *New York Times*, November 163.
- Mertens, Karel and Morten Ravn (2014) “Fiscal Policy in an Expectations-Driven Liquidity Trap,” *The Review of Economic Studies*, Vol. 81, No. 4.
- Michau, Jean-Baptiste (2015) “Secular Stagnation: Theory and Remedies,” manuscript, Ecole Polytechnique.
- Nuño, Galo (2011) “Optimal Research and Development and the Cost of Business Cycles,” *Journal of Economic Growth*, Vol. 16, No. 3, pp. 257–283.
- Ogaki, Masao and Carmen M Reinhart (1998) “Measuring Intertemporal Substitution: The Role of Durable Goods,” *Journal of Political Economy*, Vol. 106, No. 5, pp. 1078–1098.
- Olivei, G. and S. Tenreyro (2007) “The Timing of Monetary Policy Shocks,” *The American Economic Review*, Vol. 97, No. 3, pp. 636–663.
- Queraltó, Albert (2013) “Financial Market Frictions, Productivity Growth and Crises in Emerging Economies,” manuscript, Federal Reserve Board.
- Rachel, L. and T. Smith (2015) “Secular Drivers of the Global Real Interest Rate,” Bank of England Working Paper.
- Rognlie, Matthew, Andrei Shleifer, and Alp Simsek (2014) “Investment Hangover and the Great Recession,” NBER working paper.
- Romer, Paul M (1990) “Endogenous Technological Change,” *Journal of Political Economy*, Vol. 98, No. 5, pp. S71–S102.
- Schmitt-Grohé, Stephanie and Martín Uribe (2012) “The Making of a Great Contraction with a Liquidity Trap and a Jobless Recovery,” manuscript, Columbia University.
- Summers, Lawrence (2013) “Why Stagnation Might Prove to Be the New Normal,” *The Financial Times*.
- Vissing-Jørgensen, Annette (2002) “Limited Asset Market Participation and the Elasticity of Intertemporal Substitution,” *Journal of Political Economy*, Vol. 110, No. 4.

Acknowledgements

We would like to thank Philippe Aghion, Pierpaolo Benigno, Javier Bianchi, Roger Farmer, Andrea Ferrero, Jordi Gali, Jang-Ting Guo, Bob Hall, Chad Jones, Nobuhiro Kiyotaki, Robert Kollmann, Tommaso Monacelli, Jaume Ventura, Alwyn Young and seminar participants at the HECER/Bank of Finland, University of St. Andrews, Federal Reserve Board, IMF, CREI, Kent University, Queen Mary University, ECB-CFS-Bundesbank, Federal Reserve Bank of Minneapolis, LSE, DIW, National University of Singapore, Toulouse School of Economics and Tinbergen Institute and participants at the RIDGE workshop on Financial Crises, Federal Reserve Bank of San Francisco conference on the New Normal for Monetary Policy, ESSIM, NBER Conference on Multiple Equilibria and Financial Crises, Riksbank conference on Deflation - Causes, Consequences and Policies, SED Meeting 2015, Barcelona GSE Summer Forum 2015, Sciences Po Summer Workshop, EUI-CEPR-IMF conference on Secular Stagnation, CEPR Macroeconomics and Growth Programme meeting and the EABCN-SNB-UoZ Conference on Medium and Long Run Implications of Financial Crises for useful comments. We thank Julia Faltermeier, Andresa Lagerborg and Martin Wolf for excellent research assistance. This research has been supported by ESRC grant ES/I024174/1, the Spanish Ministry of Science and Innovation (grant ECO2011-23192) and the Fondation Banque de France Research Grant. The contribution by Luca Fornaro to this paper has been prepared under the Lamfalussy Fellowship Program sponsored by the European Central Bank.

Gianluca Benigno

London School of Economics, CEPR, and Centre for Macroeconomics; email: gianluca.Benigno@lse.ac.uk

Luca Fornaro

CREI, Universitat Pompeu Fabra, Barcelona GSE and CEPR; email: luca.fornaro@crei.cat

© European Central Bank, 2017

Postal address 60640 Frankfurt am Main, Germany
Telephone +49 69 1344 0
Website www.ecb.europa.eu

All rights reserved. Any reproduction, publication and reprint in the form of a different publication, whether printed or produced electronically, in whole or in part, is permitted only with the explicit written authorisation of the ECB or the authors.

This paper can be downloaded without charge from www.ecb.europa.eu, from the [Social Science Research Network electronic library](#) or from [RePEc: Research Papers in Economics](#). Information on all of the papers published in the ECB Working Paper Series can be found on the [ECB's website](#).

ISSN	1725-2806(pdf)	DOI	10.2866/618699(pdf)
ISBN	978-92-899-2760-4(pdf)	EU catalogue No	QB-AR-17-050-EN N(pdf)