

The Macroeconomic Effects of the Federal Reserve's Conventional and Unconventional Monetary Policies

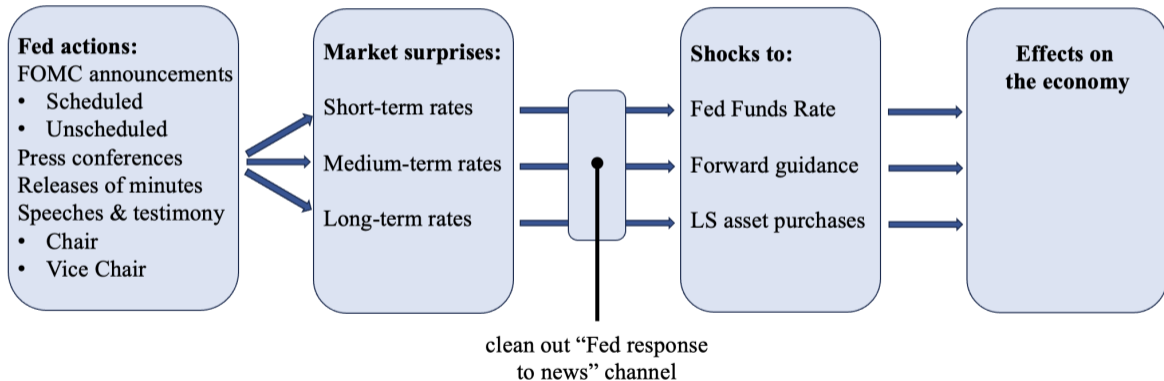
ERIC SWANSON

Discussion by Thomas Drechsel (University of Maryland)

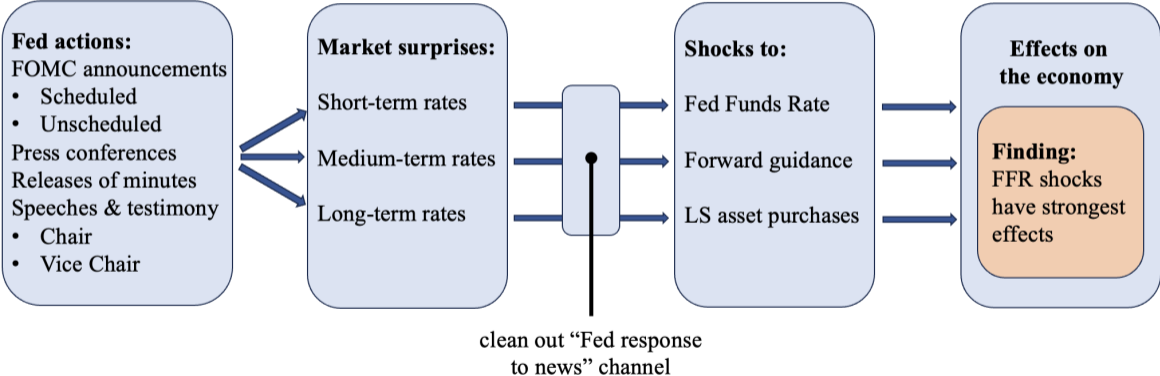
Norges Bank/IMF *Future of Macroeconomic Policy* Conference

June 15, 2023

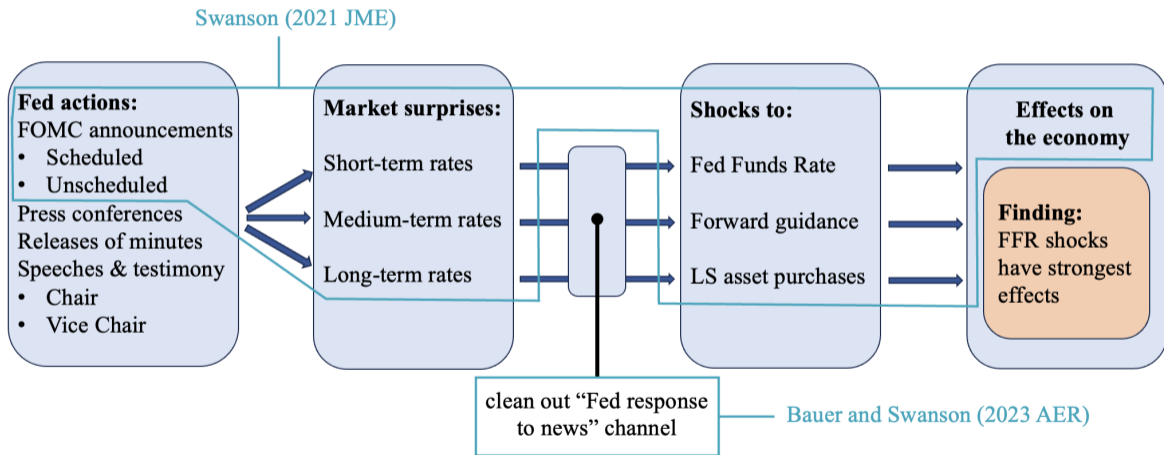
SUMMARY



SUMMARY - FINDING



SUMMARY - RELATION TO ERIC'S OTHER WORK



HIGHLIGHTS OF THIS PAPER

- ▶ New variation: more than 1,000 shifts in U.S. monetary policy!
- ▶ Combines important insights
 - ▶ Distinguishing between FF, FG, and LSAP (Swanson, 2021)
 - ▶ Cleaning surprises to get true shocks (Bauer and Swanson, 2023)
- ▶ Findings relevant at current juncture for the Fed

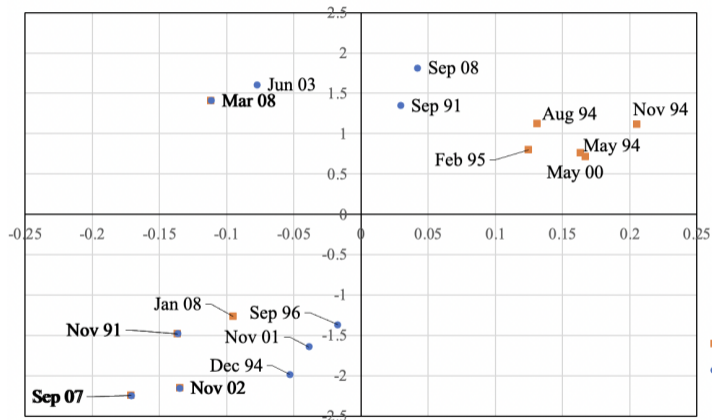
OVERVIEW OF MY COMMENTS

1. Sense-check of separation between different policies
2. Challenges to comparing effects of different policies
3. “The future of macroeconomic policy”

COMMENT 1: SEPARATION OF DIFFERENT POLICY CHANGES

- ▶ Key innovation: separate different types of policies
- ▶ Sense-check:
 - ▶ [Aruoba and Drechsel \(2022\)](#) identify shocks to target rate
 - ▶ Alternative approach to using surprises in market rates
 - ▶ FF surprises should capture similar variation to target FF shocks while FG and LSAP surprise should not

COMMENT 1: SEPARATION OF DIFFERENT POLICY CHANGES



Correlation between Aruoba-Drechsel shocks and Swanson (2021) surprises in full sample

with FF surprises **+0.49**

with FG surprises **-0.08**

with LSAP surprises **+0.05**

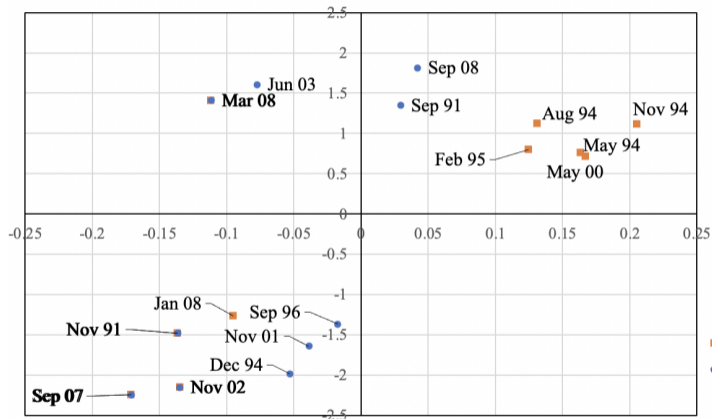
The plot illustrates the connection between our shocks and FF surprises for largest realizations

■ 10 largest Aruoba-Drechsel shocks

● 10 largest FF surprises from Swanson (2021)

Correlation for largest shocks: **+0.77**

COMMENT 1: SEPARATION OF DIFFERENT POLICY CHANGES



Correlation between Aruoba-Drechsel shocks and Swanson (2021) surprises in full sample

with FF surprises **+0.49** ✓

with FG surprises **-0.08** ✓

with LSAP surprises **+0.05** ✓

Makes sense!

The plot illustrates the connection between our shocks and FF surprises for largest realizations

■ 10 largest Aruoba-Drechsel shocks

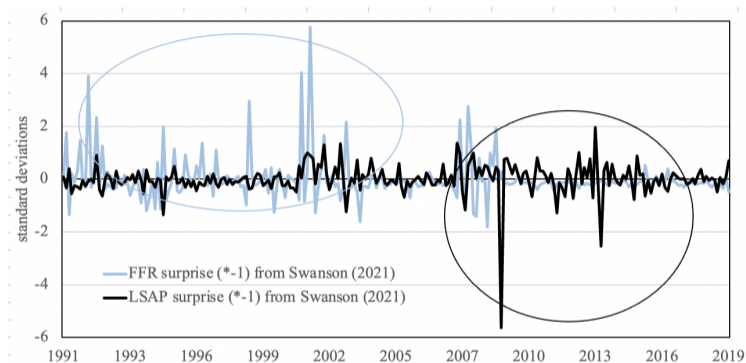
● 10 largest FF surprises from Swanson (2021)

Correlation for largest shocks: **+0.77**

COMMENT 2: CHALLENGES TO COMPARING POLICIES

- ▶ Paper concludes FFR shocks have strongest effects on the economy
- ▶ Challenges for comparison
 1. Non-standard policies are state-dependent
 2. Normalizations are tricky

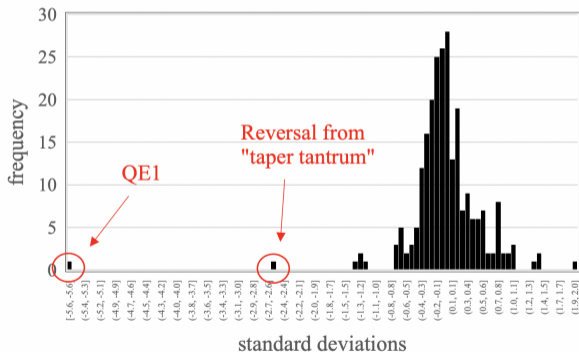
COMMENT 2.1: NON-STANDARD POLICIES ARE STATE-DEPENDENT



- ▶ Comparison across policies challenging → occur in different states of the world
- ▶ State-dependent effects also shown theoretically, e.g. [Cúrdia and Woodford \(2011\)](#)

COMMENT 2.2: NORMALIZATIONS ARE TRICKY

- ▶ Not clear what variation in asset purchases corresponds to estimated effect
- ▶ Also: are different LSAP shocks comparable with each other?

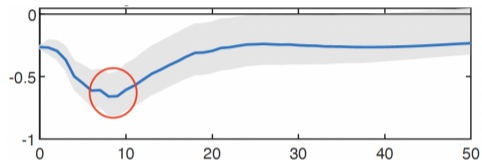


RECOMMENDATIONS

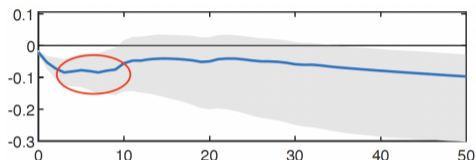
- ▶ Focus less on which policy has stronger effects
- ▶ Focus more on
 - ▶ Different transmission mechanisms of different policies
 - ▶ The fact that FFR changes have strong effect in an absolute sense
 - ▶ And what that means for the future

COMMENT 3: “THE FUTURE OF MACROECONOMIC POLICY”

- ▶ Let me focus purely on the lag profile of the estimates



Industrial production response



CPI response

- ▶ After roughly 9 months
 - ▶ Maximum impact on real economic activity has materialized
 - ▶ Substantial part of impact on price level has materialized
- noteworthy that price level response typically much slower in other studies

COMMENT 3: “THE FUTURE OF MACROECONOMIC POLICY”

- ▶ If we go 9 months back in time, 225-300bp hikes had already occurred
- ⇒ Max. impact of roughly half of total 500bp rate increases “in the system” today
- ▶ Implies following (courageous) back-of-the-envelope calculation
 - ▶ Change in outcome since March 2023 \approx remaining impact of past Fed policy
 - ▶ CPI inflation has come down from 9% to 5%
 - ▶ So if Fed did nothing more, should see another 4 p.p. reduction
 - ▶ Of course this ignores nonlinearities & other shocks occurring in the meantime
- ▶ **Pause in June FOMC meeting consistent with Eric’s estimates**

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