

Accepted Manuscript

Next Generation Monetary Policy

Miles Kimball

PII: S0164-0704(17)30039-3
DOI: [10.1016/j.jmacro.2017.06.002](https://doi.org/10.1016/j.jmacro.2017.06.002)
Reference: JMACRO 2957

To appear in: *Journal of Macroeconomics*

Received date: 1 February 2017
Revised date: 30 May 2017
Accepted date: 13 June 2017

Please cite this article as: Miles Kimball , Next Generation Monetary Policy, *Journal of Macroeconomics* (2017), doi: [10.1016/j.jmacro.2017.06.002](https://doi.org/10.1016/j.jmacro.2017.06.002)



This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Next Generation Monetary Policy¹

Miles Kimball

February 16, 2017

University of Colorado Boulder Economics Department
University of Michigan Survey Research Center
University of Southern California Center for Economic and Social Research
National Bureau of Economic Research
miles.kimball@colorado.edu

Let me make the case that monetary policy is far inside the production possibility frontier. In part, this is to forestall the danger of complacency. It would not be surprising if some central bankers are patting themselves on the back because the world is finally crawling out of its business cycle hole. But dangers abound going forward, including for example

- the likelihood the lesson that higher capital requirements are needed to avoid financial crises will be forgotten by key policy-makers
- the possibility of a dramatic collapse of Chinese real estate prices
- the not-so-remote chance of a serious trade war.

For monetary policy researchers to contribute to mitigating such real-world dangers, they need to avoid the higher-order intellectual danger of being drawn into simply justifying what central banks already happen to be doing. The assumption that people know what they are doing—and are already following the best possible strategy—may have an appropriate place in some areas of economics, but is especially inapt when applied to central banks. For one thing, the field of optimal monetary policy is very young, and its influence on central banks even younger. For another, it is not easy to optimize in the face of complex political pressures and many self-interested actors eager to cloud one's understanding with false worldviews.

While important, academic research cannot yield advances in monetary policy on its own. Trying ideas out is the only way to make a fully convincing case that they work—or don't. There is great value in well-considered public policy experiments, and courage on the part of policy-makers to conduct appropriate experiments is an underrated virtue. Experimentation in monetary policy is less costly than experimentation in some other areas because central banks are usually in a good position to reverse something they try that doesn't work. So there is no reason to allow monetary policy to stagnate in status quo patterns.

The Value of Interest Rate Rules

Because optimal monetary policy is still a work in progress, legislation that tied monetary policy to a specific rule would be a bad idea. But legislation requiring a central bank to choose some

¹ I am grateful for excellent comments from an anonymous referee and participants at the Monetary Rules Conference that made the discussion in this paper much richer.

Download English Version:

<https://daneshyari.com/en/article/7367037>

Download Persian Version:

<https://daneshyari.com/article/7367037>

[Daneshyari.com](https://daneshyari.com)