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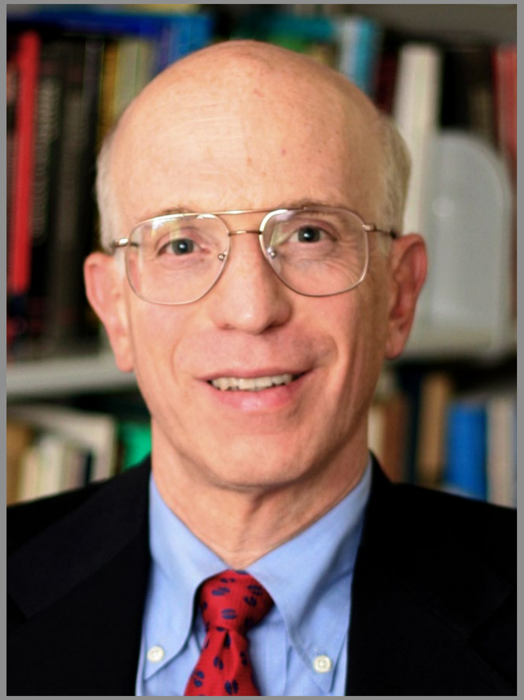

Landings
Hard and Soft:
The Fed, 1965-2020

Alan Blinder

Princeton

11. Feb. 2022 Markus Brunnermeier

PRINCETON

Soft-landing in what?

- GDP/unemployment
- Inflation
- “Landing in Lending”
- Financial conditions/asset prices

PRINCETON

Financial Dominance

Brunnermeier (2016)

- Removing "Fed put"
- Soft landing for financial sector or disruptions are ok?
  - In bond markets … like early 1990s
  - In housing market
  - In equity markets
- Spillover to real sector
  - Bank vs. financial market dependent economy
    - Banks sovereign debt holdings (diabolic/doom loop)

- Sensitivity/discontinuities in MoPo
- Lessons from
  - 1990s Bond crash
  - 2013 Taper tantrum
    - Communicate early (too late already)

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How to soft-land? "Unconventional Landing"

- The forgotten "Taylor Principle" $\phi_\pi > 1$
  - interest rate rise more than one-for-one in inflation
  - Forward looking only when inflation is high
- Step-by-step or in jumps (50 bps)
  - Advanced communications
- Short-end or long-end of yield curve
  - "Bear flattening" (Robin Brooks)
    not tighter financial conditions
  - Ending QE or starting QT
- Removal of "Fed put" for bonds/stocks
  - Conditional reaction function
- Interaction with
  - Macro-prudential regulation
  - Fiscal policy

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The International Dimension

- Soft Landing for the US, but Hard Landing for EMDE?
  - Reversal of capital flows
- Too late to prepare for EMDE?
- Role for the BIS/IMF

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Poll

1. How many soft landings has the Fed engineered since 1965?
   a. None
   b. One
   c. Three
   d. It depends how you count
2. The Fed refused to raise interest rates aggressively as inflation rose in 1977-1979, changing course only when Paul Volcker became chair in August 1979?
   a. True
   b. False
3. The Fed actually reduced interest rates in 1980 because:
   a. Inflation was already down to 4%
   b. Whitehouse was browbeating Volcker
   c. Credit controls caused recession
   d. Volcker was outvoted on the FOMC

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11. Feb. 2022

PRINCETON

Landings, Soft and Hard: The Federal Reserve, 1965-2020

Professor Alan S. Blinder
Princeton University

Presentation to Markus Academy

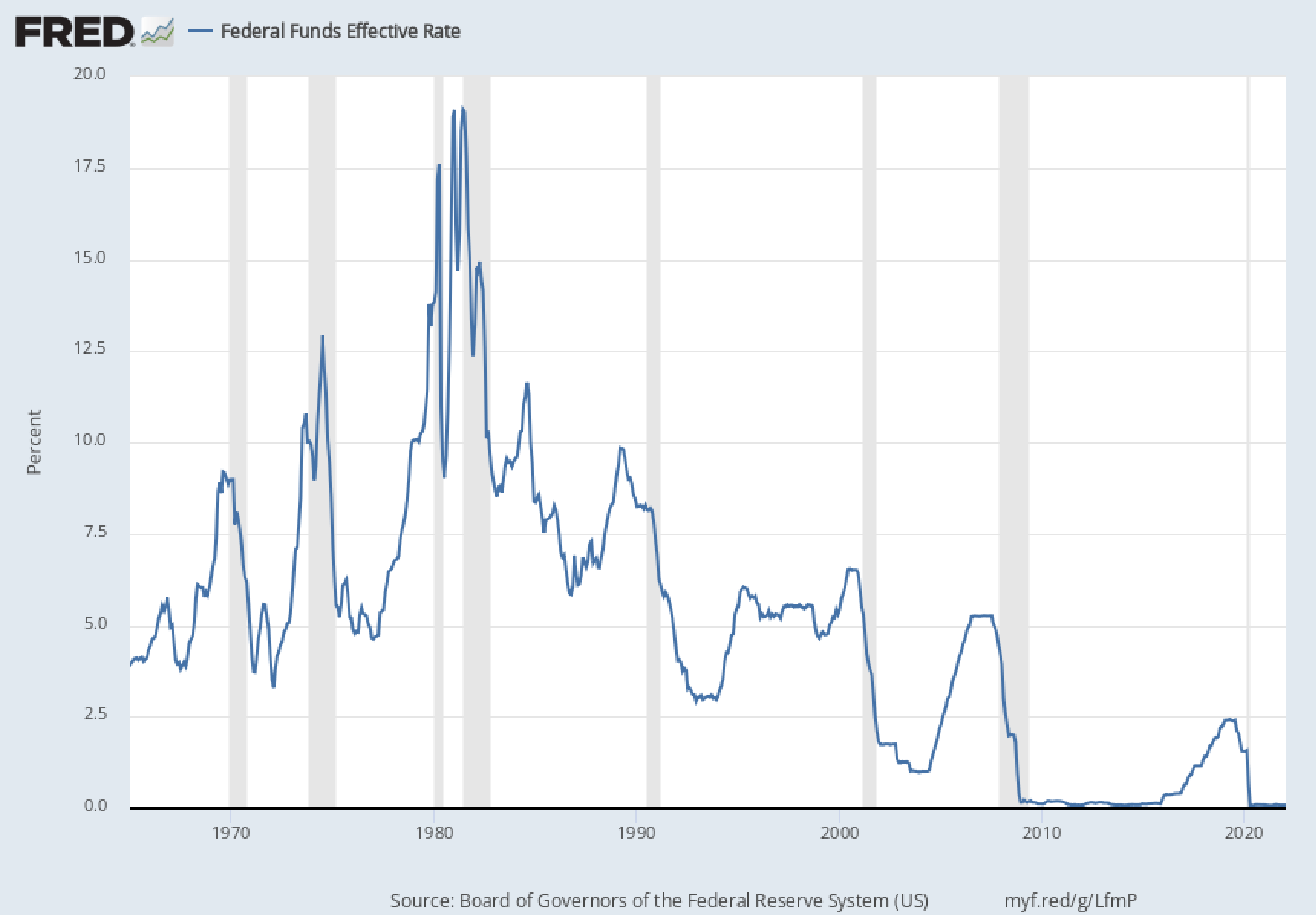
February 11, 2022

Based (loosely) on:

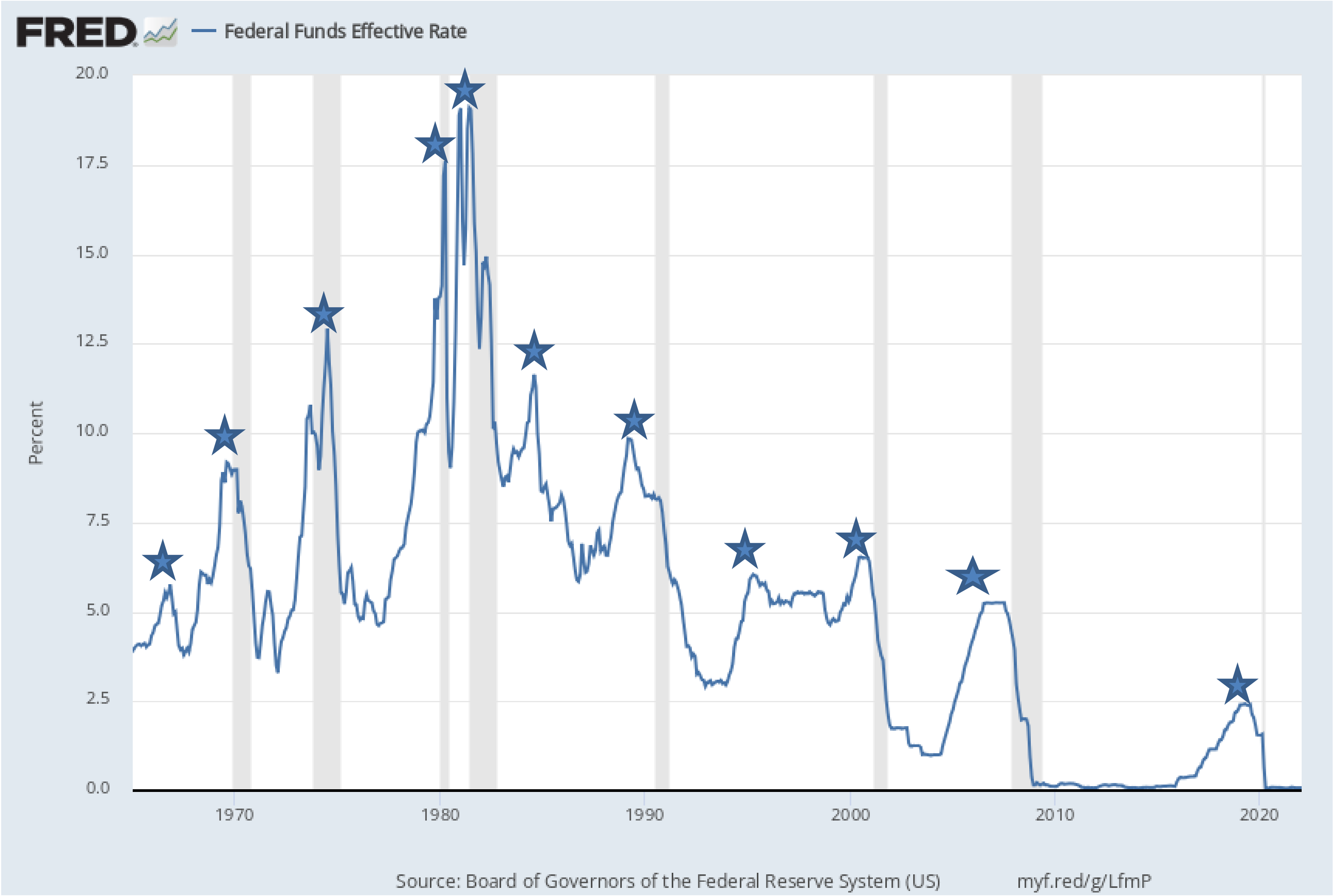
A Monetary and Fiscal History of the United States, 1961-2021 (Princeton University Press, forthcoming, 2022?)

A *perfect* soft landing is too stern a criterion, but *softish* landings are not all that rare.

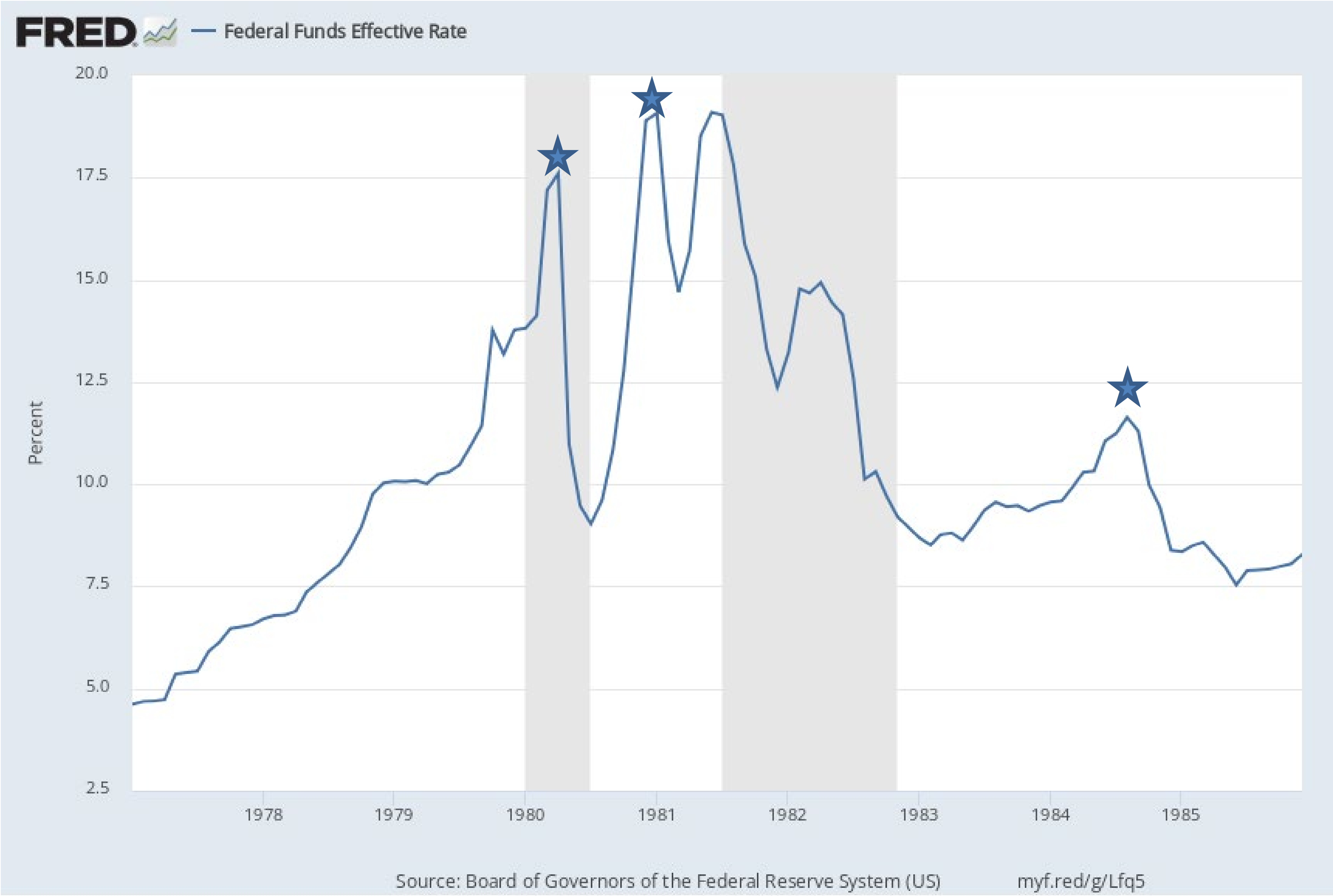
A visual overview: 11 Fed tightenings since 1965
(based on the effective Fed funds rate)



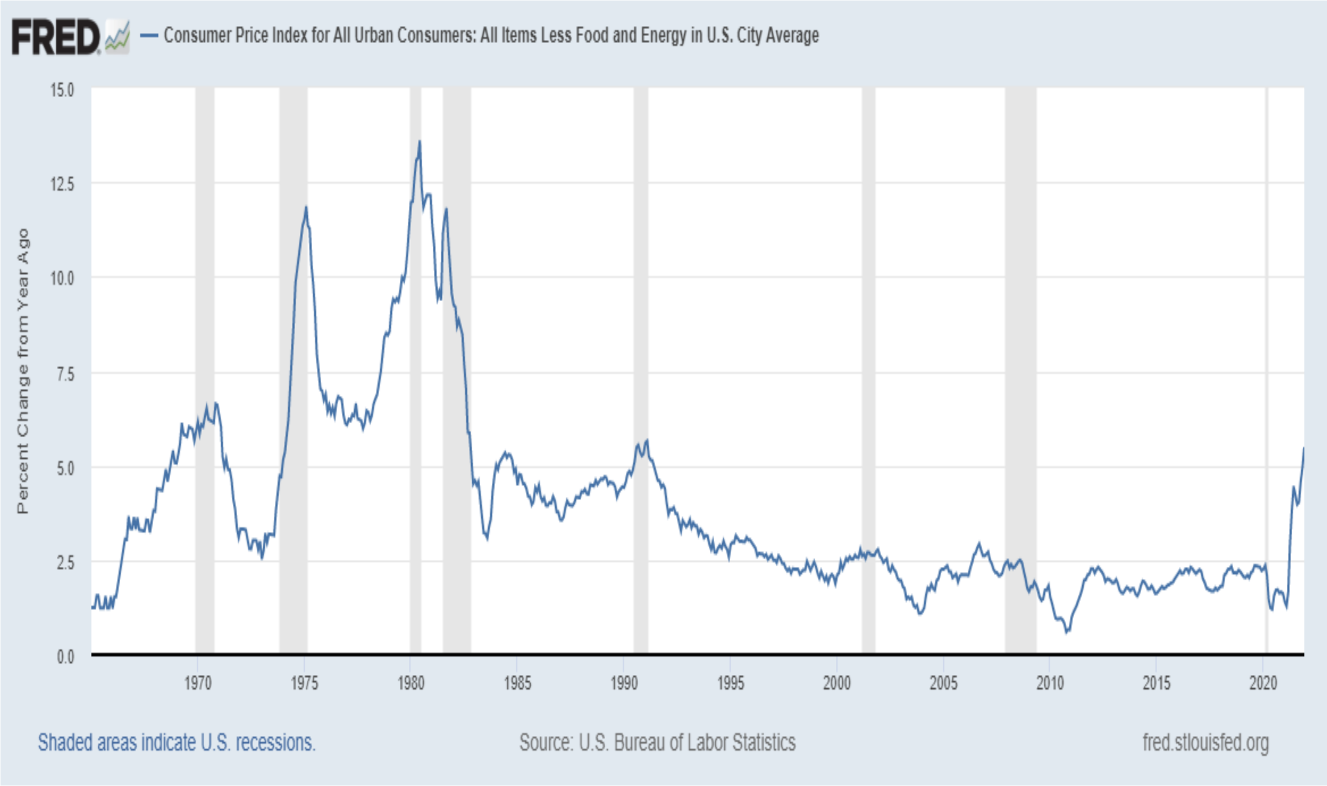
The 11 tightenings, peaks highlighted



A close-up of the late 1970s and early 1980s



These are, of course, related to hills and valleys in the inflation rate (here, core CPI)



Some "data"

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Sep. 1965 – Nov. 1966	175	---	None	slowdown in 1966
July 1967 – Aug. 1969	540	January 1970	-0.6%	3 of 5 negative Qs
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July 1980 – Jan. 1981	1000	August 1981	-2.1%	4 of 6 negative Qs
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1. Feb. 1965-Nov. 1966 (Martin, 175 bps)

- Johnson famously "barbequed" Martin
- Produced a "growth recession"
- Fed then backed off (criticized by Reis, *BPEA*, 2021)
- But soon returned to tightening

Some “data”

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2. July 1967 – Aug. 1969 (Martin, 540 bps)

- Fed got serious about the Vietnam inflation
- Fiscal policy also tightened in mid-1968 (tax surcharge)
  - In those ancient days, the February 1968 *Economic Report of the President* observed that:

It has been and remains the conviction of both the Administration and the Federal Reserve System that the Nation should depend on fiscal policy, not monetary policy, to carry the main burden of the additional restraint on the growth of demand that now appears necessary for 1968. (CEA 1968, 84–85)

- Inflation tumbled after the recession
  - From about 6% to about 3%
  - NBER peak is Dec. 1969

Some “data”

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3. Feb. 1972 – July 1974 (Burns, 960 bps)

- 1972 was Nixon's reelection year.
  - big fiscal stimulus in 1972
  - price controls had started in August 1971, phased out in 1973-74
- Huge supply shocks + end of price controls drove inflation into double-digits.
- Inflation rose through the long recession, then cratered to around 6½%.

Some “data”

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4. July 1977 – April 1980 (Burns→Miller→Volcker, 1300 bps)

- Inflation soared again, starting in 1978.
  - core CPI reached 13.6% (June 1980)
  - Big measurement issue then
- Miller raised rates more than history gives him credit for. But not high or fast enough for Volcker.
- Volcker took over in August 1979 and turned “monetarist.”

Some "data"

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5. July 1980 – Jan. 1981 (Volcker, 1000 bps)

- Credit controls cratered the real economy briefly (in 1980:2), but inflation remained in double digits.
- Volcker backed off as economy sank.
- As growth snapped back, the allegedly monetarist Fed went back to tightening.
- Inflation plummeted in *1982*, from 9½% to 4½%.

Some "data"

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July 1967 – Aug. 1969	540	January 1970	-0.6%	3 of 5 negative Qs
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6. Feb. 1983 – Aug. 1984 (Volcker, 315 bps)

- Not clear we should call this a tightening
- More like a readjustment after the monetarist episode
- Economy slowed in 1984:3—a prelude to the Great Moderation

Some "data"

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7. Mar. 1988 – Apr. 1989 (Greenspan, 325 bps)

- Almost achieved a soft landing.
- Growth averaged 2.8% from 1988:3 through 1990:3.
- Recession started in August 1990, triggered by Saddam Hussein, not by Alan Greenspan.

Some “data”

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8. Jan. 1994 – Apr. 1995 (Greenspan, 310 bps)

- The legendary perfect soft landing
- Growth averaged 4.4% from 1993:4 through 1994:4, then slowed to just 1.3% in 1995:H1.
- FOMC raised funds rate to 6%, but quickly backed off to 5.5%.
- U=5.6% in 1995; believed to be ≈U*
- Inflation stayed around 3%.

Some "data"

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9. Jan. 1999 – July 2000 (Greenspan, 190 bps)

- End of the boom allowed by "the great call"
- A minuscule recession started in April 2001.
  - It disappears in annual data.
- This "recessionette" was pretty close to a soft landing.
- But it was followed by a "job loss" recovery.

Some “data”

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10. June 2004 – June 2006 (Greenspan→Bernanke, 425 bps)

- The “better late than never” tightening
  - Fed was accused of failing to stand against the house-price bubble.
- GDP growth slowed; not enough to raise U.
- Inflation rose about 100 bps.
- Did this tightening cause the 2007-2009 recession?
  - I doubt it.
  - Look at the lag: June 2006 to January 2008.
  - Without the crash, this might have been considered a soft landing.

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11. Nov. 2015 – Jan. 2019 (Yellen→Powell, 225 bps)

- Impossible to blame the 2020 recession on this “tightening”!
- More like a *very gradual* normalization.
- Might have been another successful fine-tuning.

Conclusion

- Seven of the eleven episodes were arguably "pretty soft" landings: 1965-66, 1967-69, 1983-84, 1988-89, **1994-95,** 1999-2000, and 2004-06.
- In three other cases, there was never any intention to make it "soft": 1972-74, 1977-80, 1980-81.
- In 2004-06 and 2015-19, it certainly wasn't tight money that caused the deep recessions that followed.
- **So soft landings can't be all that hard to achieve.**

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