

# Comments on “Recovery of 1933”

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- ▶ Deflation at ZLB? “Helicopter money!” “Unbacked fiscal expansion.” Hard to do!
- ▶ Default a little bit? Retain reputation for future borrowing?

$$\frac{B_{t-1}}{P_t} = E_t \sum_{j=0}^{\infty} \rho^j s_{t+j} = E_t \left( s_t + \rho \sum_{j=0}^{\infty} \rho^j s_{t+1+j} \right) = E_t \left( s_t + \rho \frac{B_t}{P_{t+1}} \right)$$

- ▶ “Extraordinary budget,” devaluation = fiscal Taylor Rule, p target.

$$s_t = \theta_y (y_t - y^*) + \theta_p (p_t - p^*) + \alpha \frac{B_{t-1}}{P_t^*}$$

- ▶ Why no deflation spiral at ZLB? Gold vs. now.
- ▶ Why steady low inflation? Decline in R is deflationary.

$$\frac{B_{t-1}}{P_t} = E_t \sum_{j=0}^{\infty} \frac{1}{R^j} s_{t+j}$$

- ▶ What happens when faith in  $\sum_{j=0}^{\infty} \rho^j s_{t+1+j}$  evaporates?