THE ATLANTIC MONTHLY ON LAWRENCE SUMMERS' POLICIES by Matthew O'Brien

You don't usually have to ask Larry Summers what he thinks. He'll usually tell you. And tell you. And then tell you what you're getting wrong. But when it comes to monetary policy, Summers has been noticeably tight-lipped. That's a problem, because he's apparently the favorite for Fed Chair.

Now, it's not as if Summers is a monetary blank slate. Anonymous Summers supporters point out that "if you use Google Scholar and type in 'Lawrence Summers' and 'monetary policy' you get more than 7,000 hits." That's actually not quite right. You get 7,000 hits if you search for "Larry Summers," but you get 18,000 hits if you search for "Lawrence Summers." But even for an academic as prolific as Summers, most of those 7,000 (or 18,000) hits aren't by him, and the ones that are mostly don't deal with monetary policy directly. Sure, he did work on how much independent central banks matter (answer: yes for price stability, and no for real performance), but the bulk of his research has focused on fiscal policy and financial markets.

In other words, there's not too much to go on here. But not nothing. We do know what kind of economic model Summers uses. And he did tell us more about what he thinks about monetary policy back in, um, 1991. So we know that Summers would be more worried about unemployment than inflation today -- but how much more worried? More worried than the Fed already is or less so? Here are three questions for Summers that would fill in some of the blanks about what we know he thinks about the Fed and what we need to know.

1. What should the Fed do when interest rates hit

zero? Monetary policy is usually pretty simple. The Fed raises rates when the economy is running too hot, and lowers them when the economy is running too cold. But today, even zero interest rates aren't enough to turn around our still-cool economy. And the Fed can't cut rates below zero, at least not for long, because people would just trade their bank deposits that were losing money for cash that wasn't. So the Fed has to instead push up inflation expectations to cut inflation-adjusted rates -- which means getting creative. The Bernanke Fed has done so by buying long-term bonds and promising to keep short-term rates low for long -- what we call quantitative easing (QE) and forward guidance. (Catchy, right?).

We don't really know what Summers thinks of these unconventional policies. Now, I suspect he prefers guidance to QE, because guidance makes fiscal stimulus, which he very much wants, even more of a slam dunk by telling us exactly how much stimulus the Fed will allow. But the Republican House means that new stimulus isn't coming anytime soon. So would Summers buy bonds out of necessity? He's been skeptical of QE, but perhaps still willing to try it. But how willing? Now, this might sound academic, but it couldn't be less so. Zero interest rates are going to be a reality for at least a few more years -- and might be again when the next recession hits.

2. Is a 2 percent inflation target the right target? Back in 1991, Summers said the optimal inflation rate was "surely positive" and "perhaps as high as 2 or 3 percent." Why? Because he thought that much inflation would let us "[avoid] the zero interest rate trap." Well, it didn't. The Fed has been tacitly targeting 2 percent for almost two decades, and recently formalized that -- but that wasn't enough to keep us out of the liquidity trap that Summers feared.

So does Summers think he underestimated how much inflation we need to prevent depressions -- and do we need more now? If we do, then we need a new target. That could be something revolutionary like an NGDP target (which just looks at the total cash size of the economy), or something evolutionary like a higher or more flexible inflation target. As Evan Soltas points out, Summers *did* quasi-endorse an NGDP target back in 1991 when he said that "what the monetary authority surely can control in the long run is the growth rate of nominal income." But there's a difference between what someone says at a conference 20 years ago, and what they think about policy today. Does Summers think an NGDP target makes sense? Or does something like the Reserve Bank of Australia's flexible inflation target, which aims for 2 to 3 percent inflation *averaged over the business cycle*, make more sense? Or is our 2 percent inflation target already good enough?

3. What kind of bubble cop? Two bubbles in ten years has been more than enough for the Fed, thank you very much. But it's one thing to know you have a problem; another thing to know what to do about it. Fed Vice Chair Janet Yellen, for one, thinks central banks should use regulations, not rates, to rein in bubbles. In other words, tightening loan-to-value and leverage ratios to keep borrowers and banks from inflating a new bubble with too much debt. But Fed members like Jeremy Stein think regulation might not be enough -- that we might need to raise rates to stop or pop a bubble before it gets going or gets too big. The danger, of course, is that monetary policy really will "get in all of the cracks" like Stein says, and burst the economy along with the bubble. That's what happened in 1929, when the Fed's rate hikes finally succeeded at stopping the speculation on Wall Street -- and then some.

It's not clear what Summers thinks the Fed should do about bubbles. His deregulatory past aside, Summers does support Dodd-Frank, and lowering leverage levels in the financial system. So score one for macro-prudential regulation. But Summers has also said that there's "the question of whether extremely low safe real interest rates promote bubbles of various kinds." So score one for bubble-popping too? Like I said, it's not clear. Would Summers raise rates to fight frothy markets even if unemployment is still high?