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South African Reserve Bank

Sir Charles Bean

Position
Professor of Economics

Affiliation (London School of Economics)

Physical address:	Houghton Street London WC2A 2AE
Postal address:	As above
Tel. no:	44-207-955-6907
e-mail:	crbean@outlook.com

Title of paper

Monetary Policy after the Great Recession

Biographical details/achievements

Charles Bean is Professor of Economics at the London School of Economics (LSE). From 2000 to 2014, he served at the Bank of England (BoE) as, successively, Executive Director and Chief Economist, and then Deputy Governor for Monetary Policy, serving on both the Monetary Policy Committee and Financial Policy Committee and will shortly join the Office for Budget Responsibility. He also represented the BoE in international forums, such as the Group of Seven (G-7) and Group of Twenty (G-20). Before joining the BoE, he was a member of faculty at LSE and has also worked at HM Treasury. He has served as Managing Editor of the Review of Economic Studies, was President of the Royal Economic Society from 2013 to 2015, and is Chairperson of the Centre for Economic Policy Research. He was knighted in 2014 for services to monetary policy and central banking, and recently undertook a review of the quality, delivery and governance of UK economic statistics for the UK government. He holds a PhD from the Massachusetts Institute of Technology (MIT).

Abstract of paper

This paper reviews some of the challenges that face central banks today in the advanced economies. I start by discussing the causes of the decline in the natural safe real rate of interest over the past two decades: a savings ‘glut’; an investment ‘strike’; and changes in the relative demands and supplies of safe versus risky assets. While some of the demographic impulses are presently reversing, as the bulge of middle-aged move into retirement, it seems likely that the low natural real rate of interest will nevertheless persist for some time to come. As a consequence, the (near) zero lower bound on interest rates is likely to continue to bind more frequently than was the case historically. I then consider various responses to this challenge, together with their drawbacks. These include: the scope for negative interest rates; forward guidance; asset purchases; raising the inflation target; levying interest on, or outlawing, cash; and ‘helicopter money’. I conclude that, while central banks may not yet be completely out of ammunition, the increasing costs of unconventional monetary policies suggest that fiscal and structural policies should shoulder more of the burden, thereby also boosting the natural safe real rate of interest.