

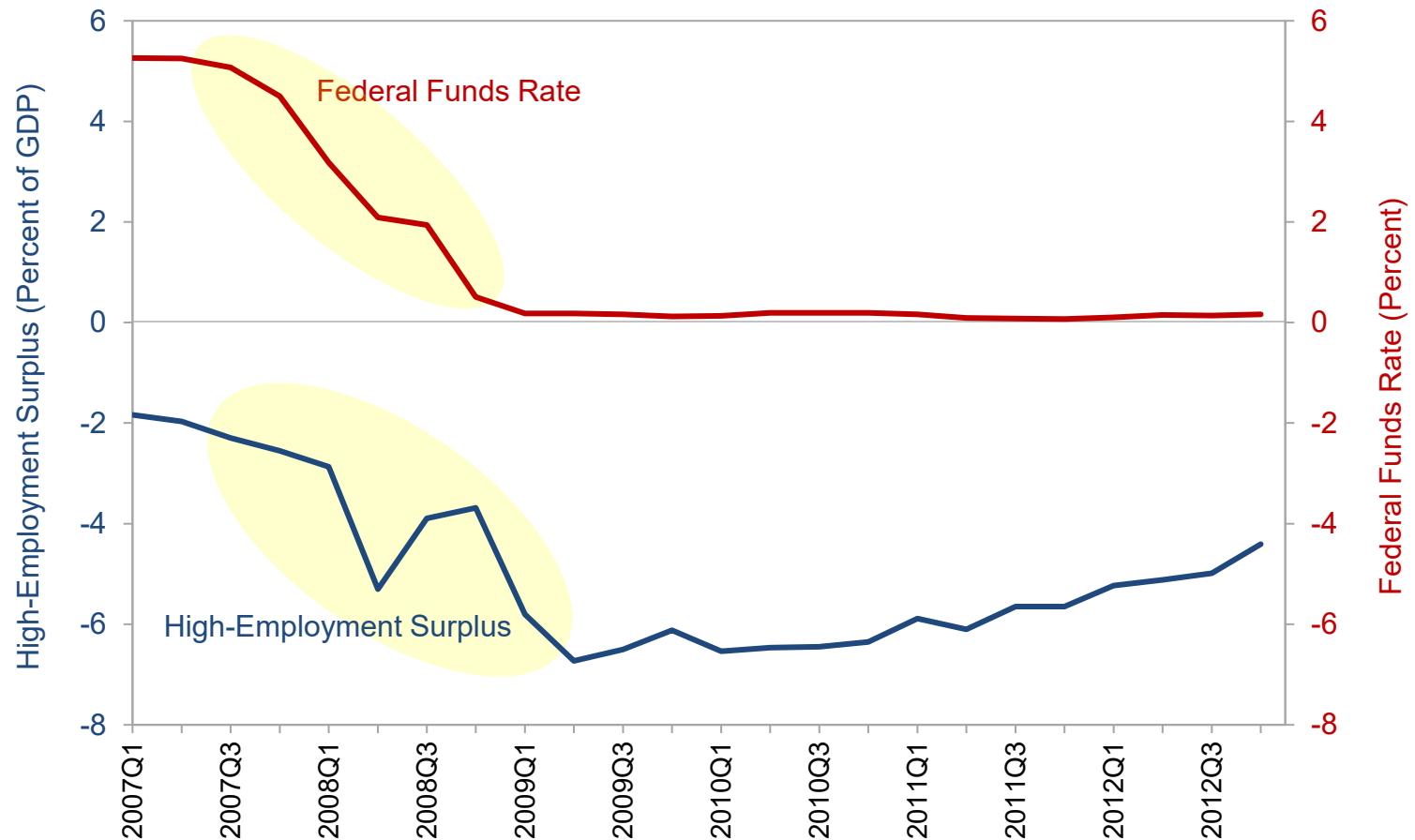
ROWING TOGETHER: LESSONS ON POLICY COORDINATION FROM AMERICAN HISTORY



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Reserve Bank of Australia-
Treasury Conference
September 4, 2025

I. INTRODUCTION

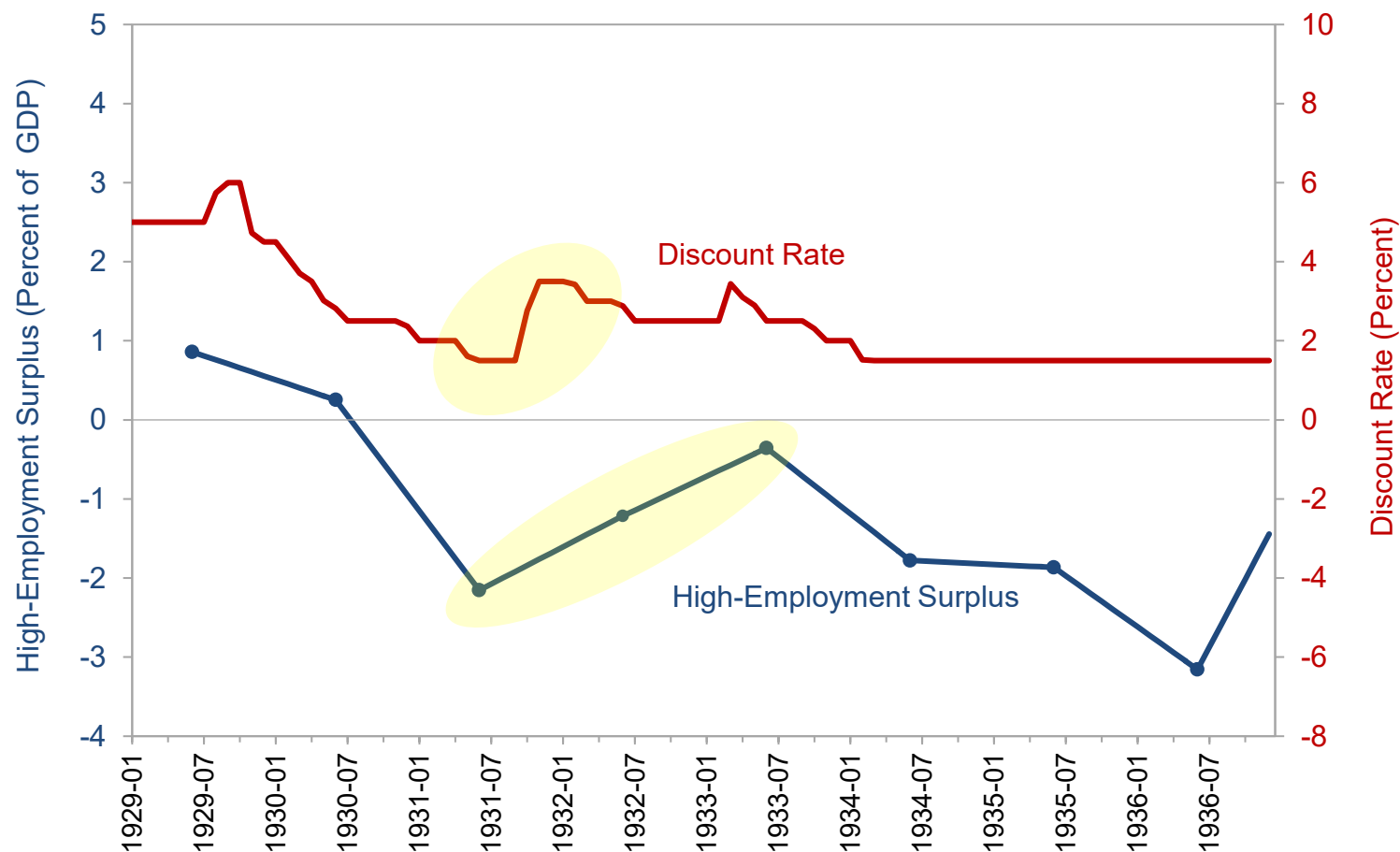
U.S. High-Employment Surplus and Federal Funds Rate 2007–2012



(Board of Governors of the Federal Reserve System, US Congressional Budget Office)



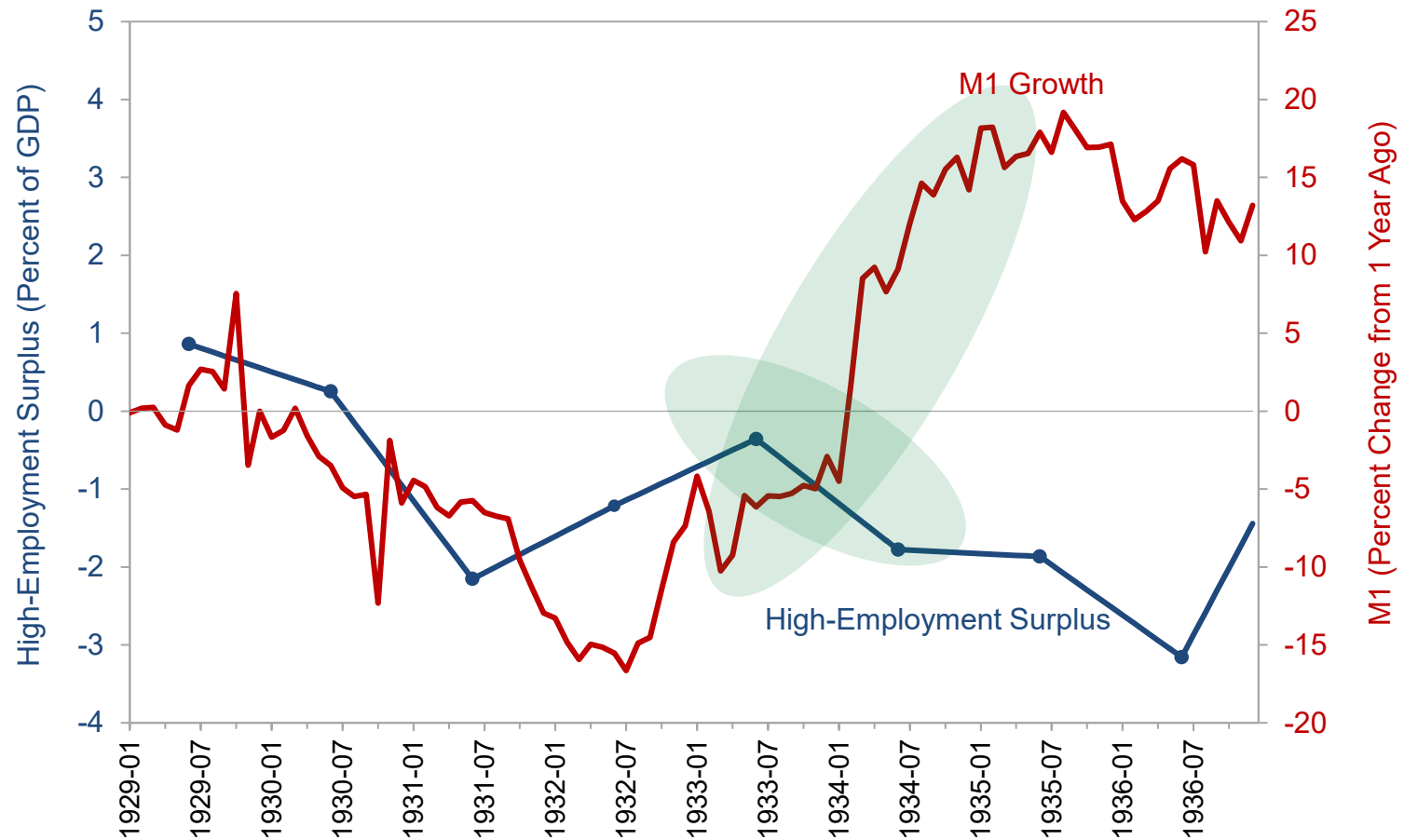
U.S. High-Employment Surplus and Discount Rate 1929–1936



(Federal Reserve Bank of New York, US Bureau of Economic Analysis, author's calculations)

II. ROWING TOGETHER

U.S. High-Employment Surplus and Money Growth 1929–1936



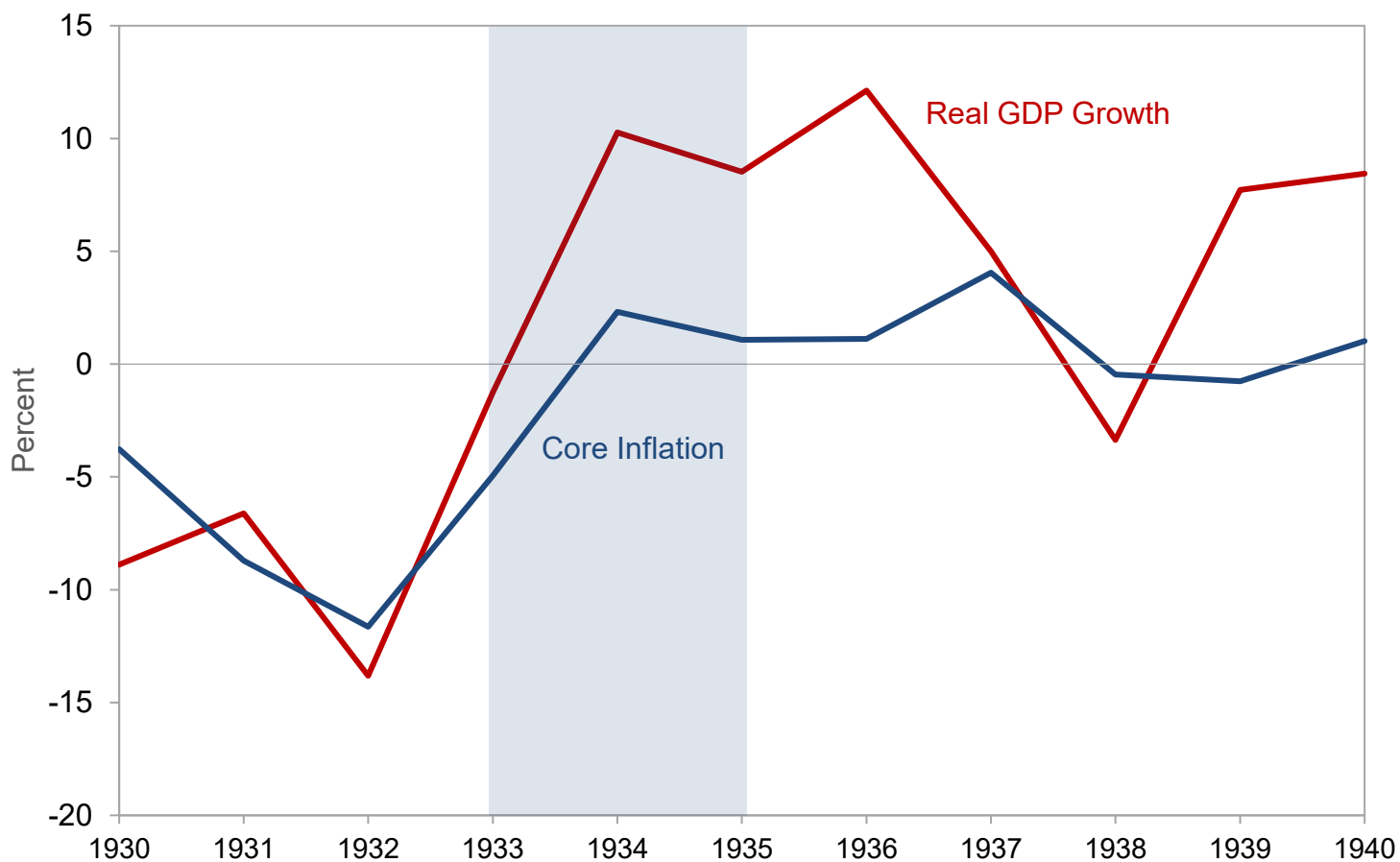
(Friedman and Schwartz, Table A1, US Bureau of Economic Analysis, author's calculations)

President Franklin D. Roosevelt:

“... this vicious tightening circle of our declining national income simply had to be broken. The bankers and the industrialists of the Nation cried aloud that private business was powerless to break it. They turned, as they had a right to turn, to the Government. We accepted the final responsibility of Government, after all else had failed, to spend money when no one else had money left to spend.”

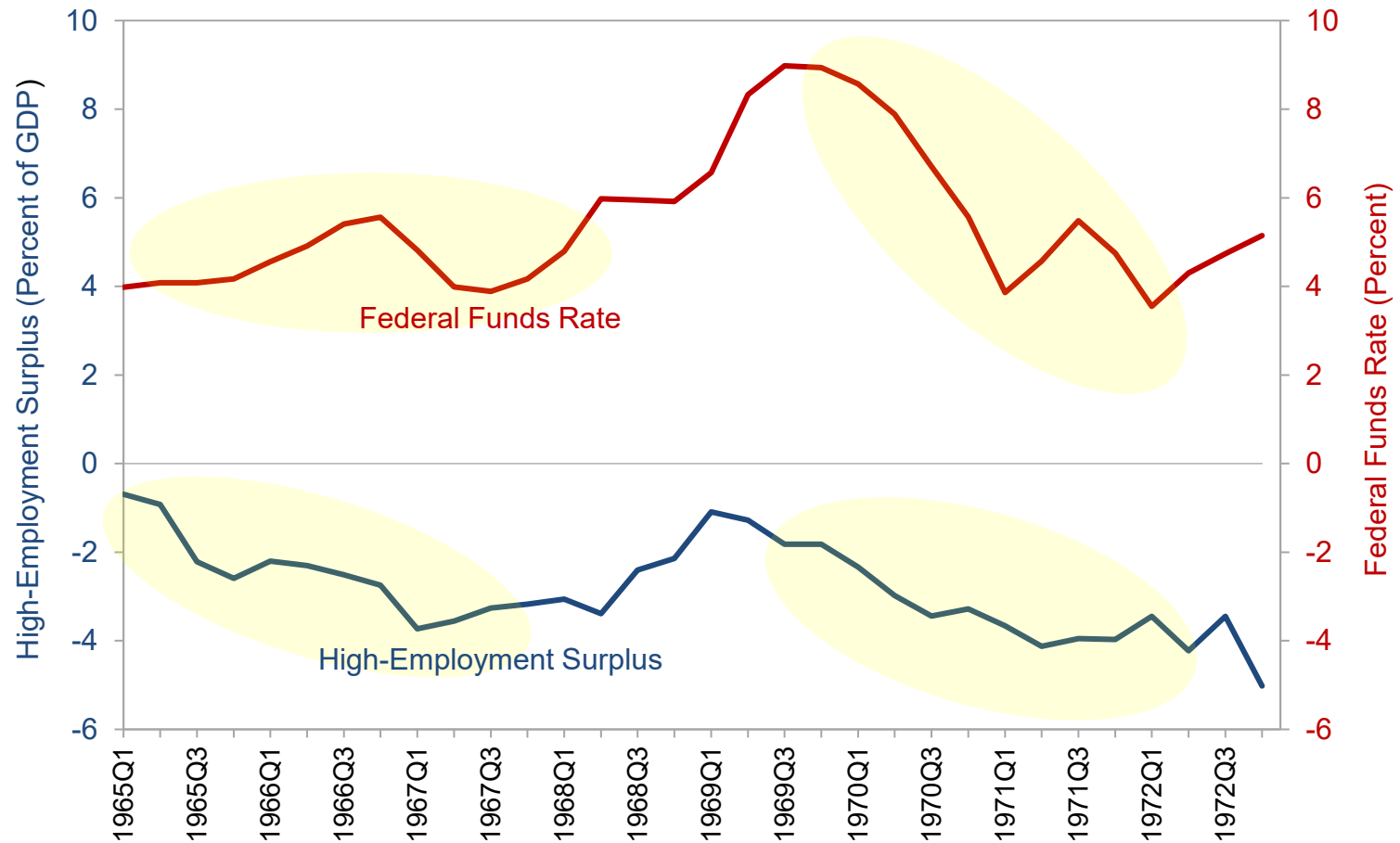
(Campaign Address at Forbes Field, Pittsburgh, Pennsylvania, October 1, 1936.)

Real GDP Growth and Core Inflation, 1930–1940



(U.S. Bureau of Economic Analysis)

U.S. High-Employment Surplus and Federal Funds Rate 1965–1972



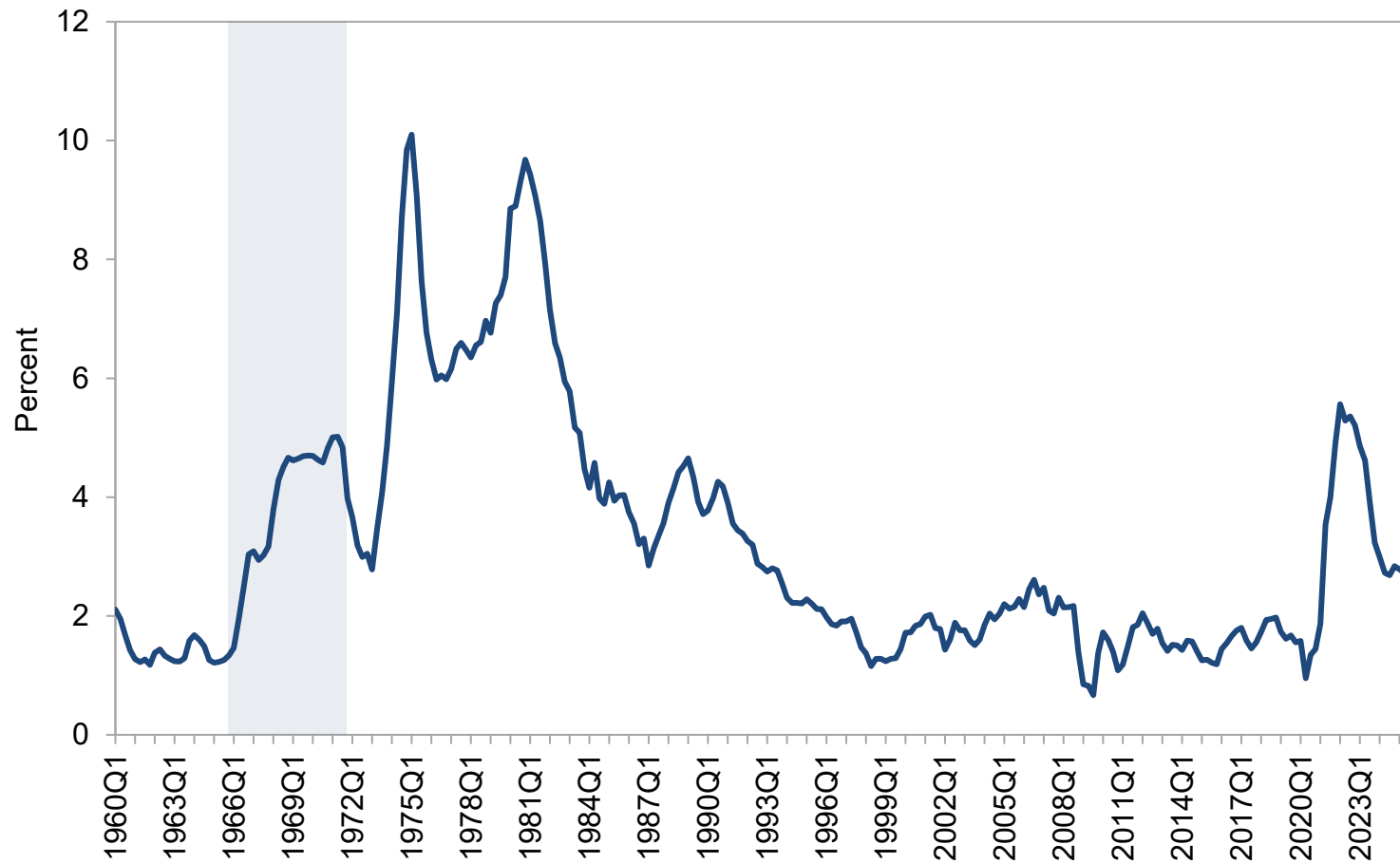
(Board of Governors of the Federal Reserve System, US Congressional Budget Office)

Federal Reserve Chair Arthur Burns:

“monetary policy could do very little to arrest an inflation that rested so heavily on wage-cost pressures. In his judgment a much higher rate of unemployment produced by monetary policy would not moderate such pressures appreciably.”

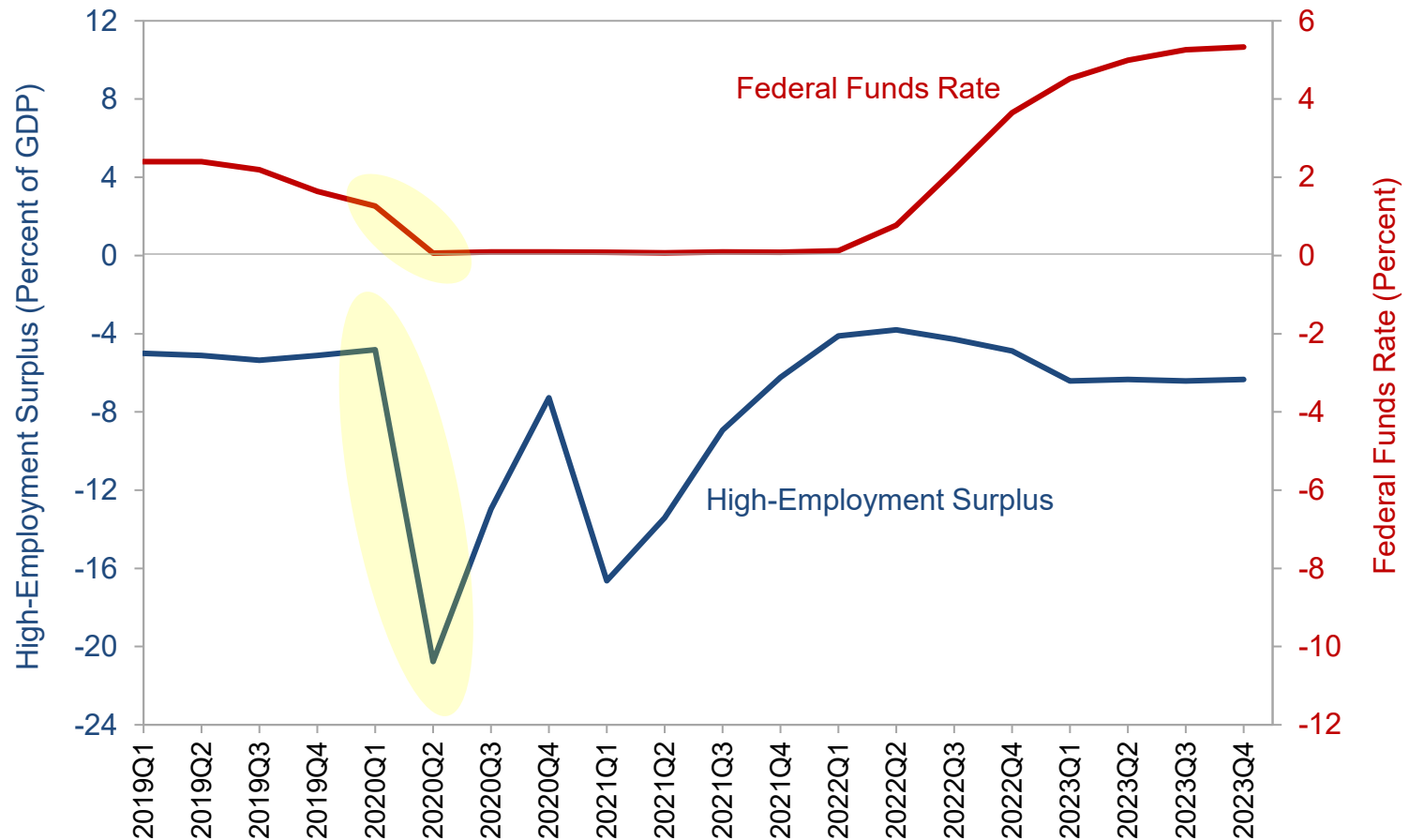
(FOMC Historical Minutes, 6/8/1971, p. 51)

Core PCE Inflation, 1960–2025



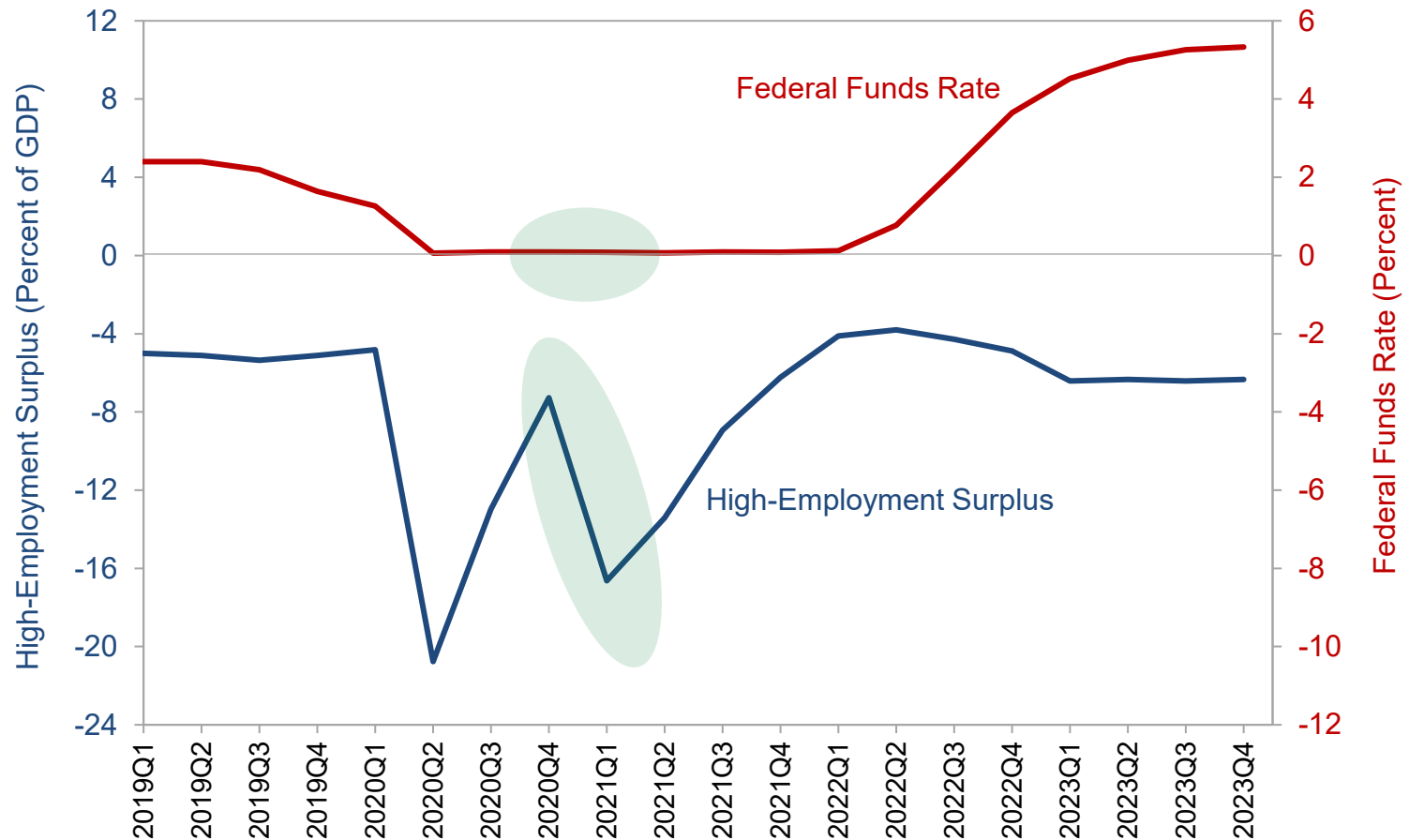
(US Bureau of Economic Analysis)

U.S. High-Employment Surplus and Federal Funds Rate 2019–2023



(Board of Governors of the Federal Reserve System, US Congressional Budget Office)

U.S. High-Employment Surplus and Federal Funds Rate 2019–2023



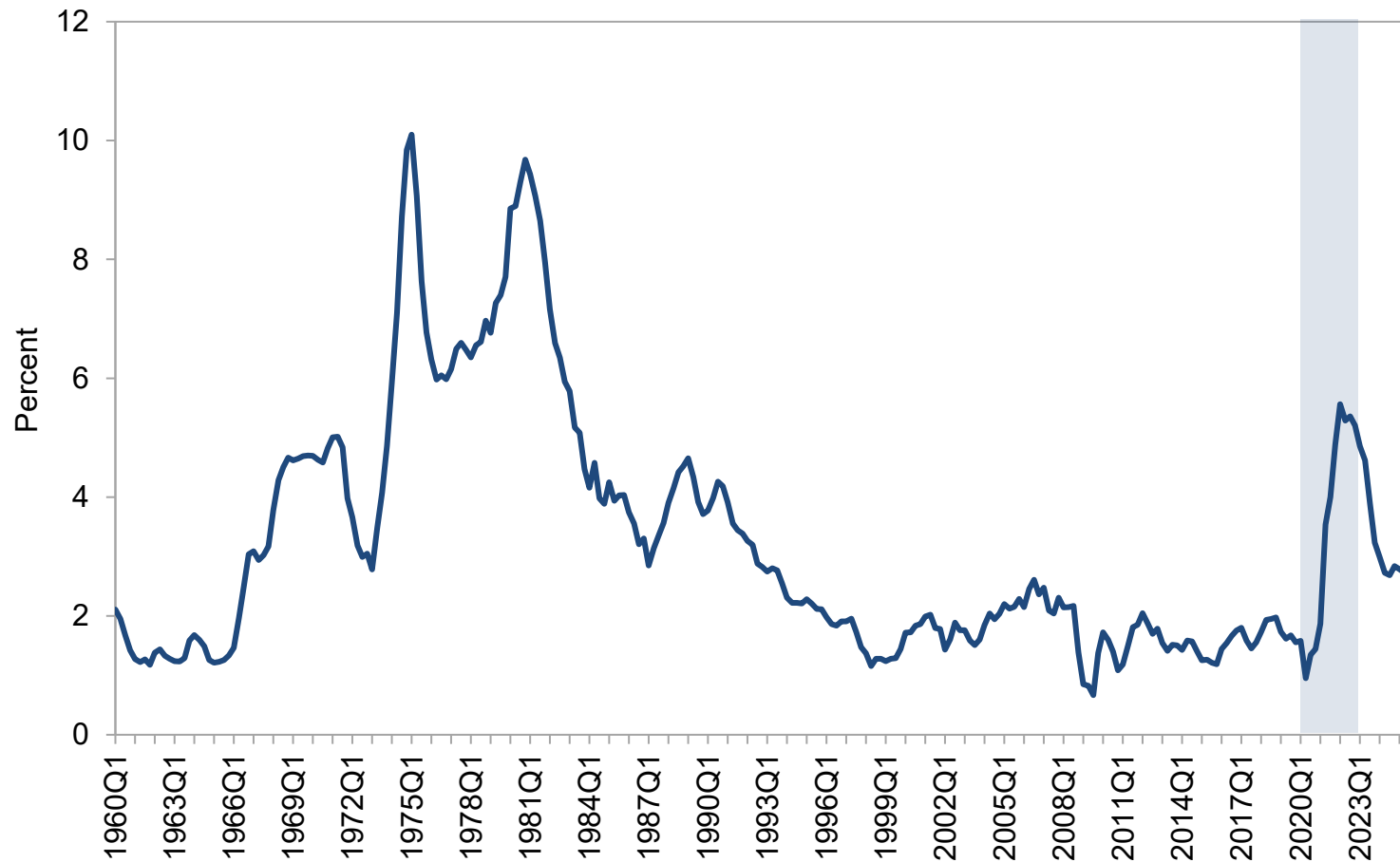
(Board of Governors of the Federal Reserve System, US Congressional Budget Office)

Federal Reserve Chair Jerome Powell:

“With regard to the employment side of our mandate, our revised statement emphasizes that maximum employment is a broad-based and inclusive goal. This change reflects our appreciation for the benefits of a strong labor market, particularly for many in low- and moderate-income communities.”

(Jackson Hole speech, August 27, 2020, p. 11)

Core PCE Inflation, 1960–2025



(US Bureau of Economic Analysis)

Lessons and Implications

1. Policy coordination does not ensure success.
 - There is no strength in numbers.
 - Policymakers in different countries should be cautious about mimicking others.
2. Economic ideas play a crucial role in driving both policy coordination and the direction of policy.

Characteristics of Policymakers' Economic Framework in Different Eras

Characteristic	1950s	1960s	Early 1970s	Mid 1970s	Late 1970s	1980s &	
						Early 1990s	Late 1990s
Normal u or \bar{u}	4.5-5%	4%	4%	5.5%	5.0%	6-7%	5%
Belief in a permanent π - u trade-off	No (Perhaps a positive relationship)	Yes	No	No	No	No	No (perhaps a positive relationship)
Sensitivity of π to slack	Medium	N/A π varies with u	Initially high, then very low	Medium	Very low	Medium	Medium

(Based on Romer and Romer, "Evolution of Economic Understanding and Postwar Stabilization Policy," 2002)

Lessons and Implications

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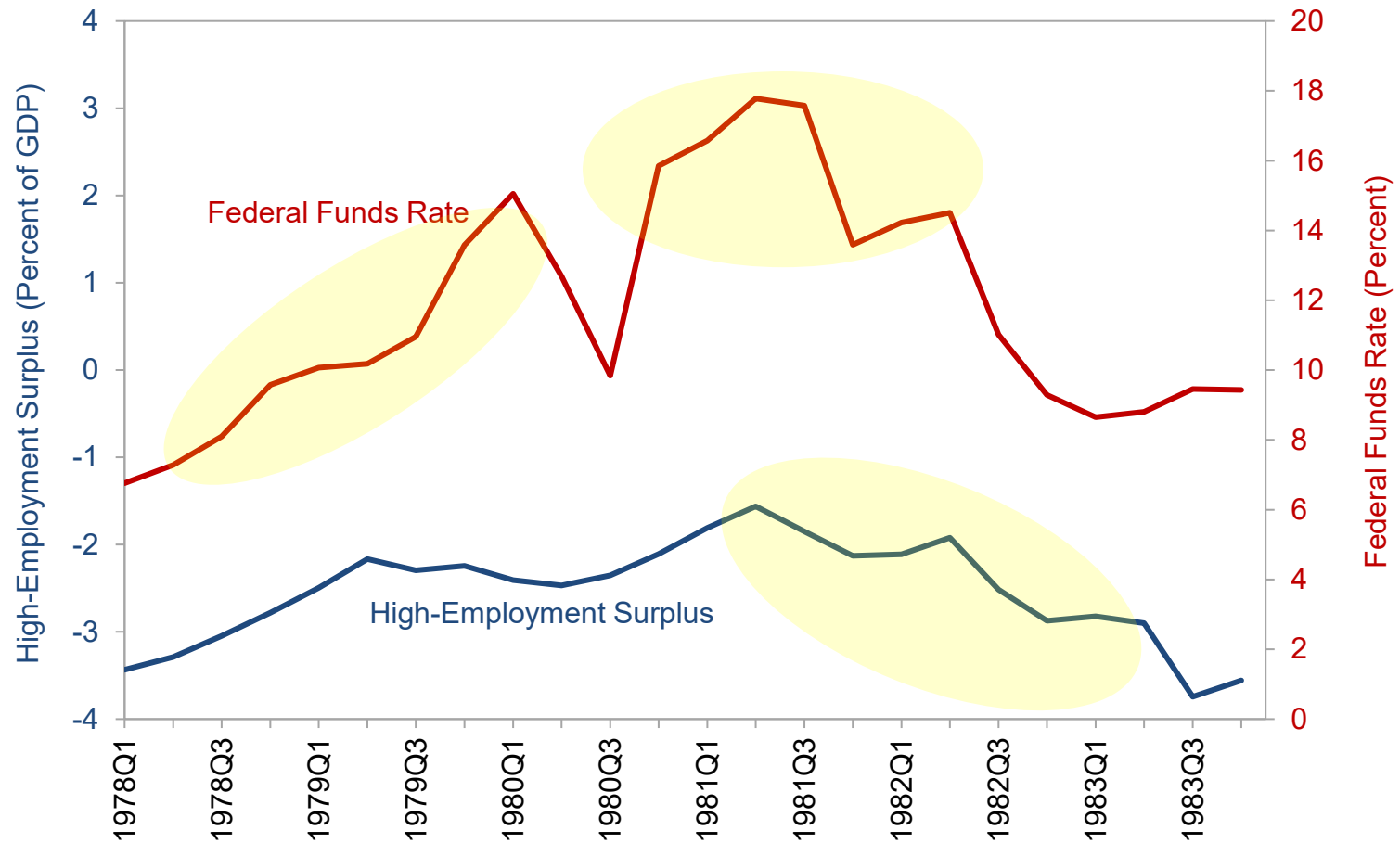
- There is no strength in numbers.
- Policymakers in different countries should be cautious about mimicking others.

2. Economic ideas play a crucial role in driving both policy coordination and the direction of policy.

- Policymakers should constantly evaluate and improve their models.
- Policymakers should be chosen in large part based on the soundness of their ideas.

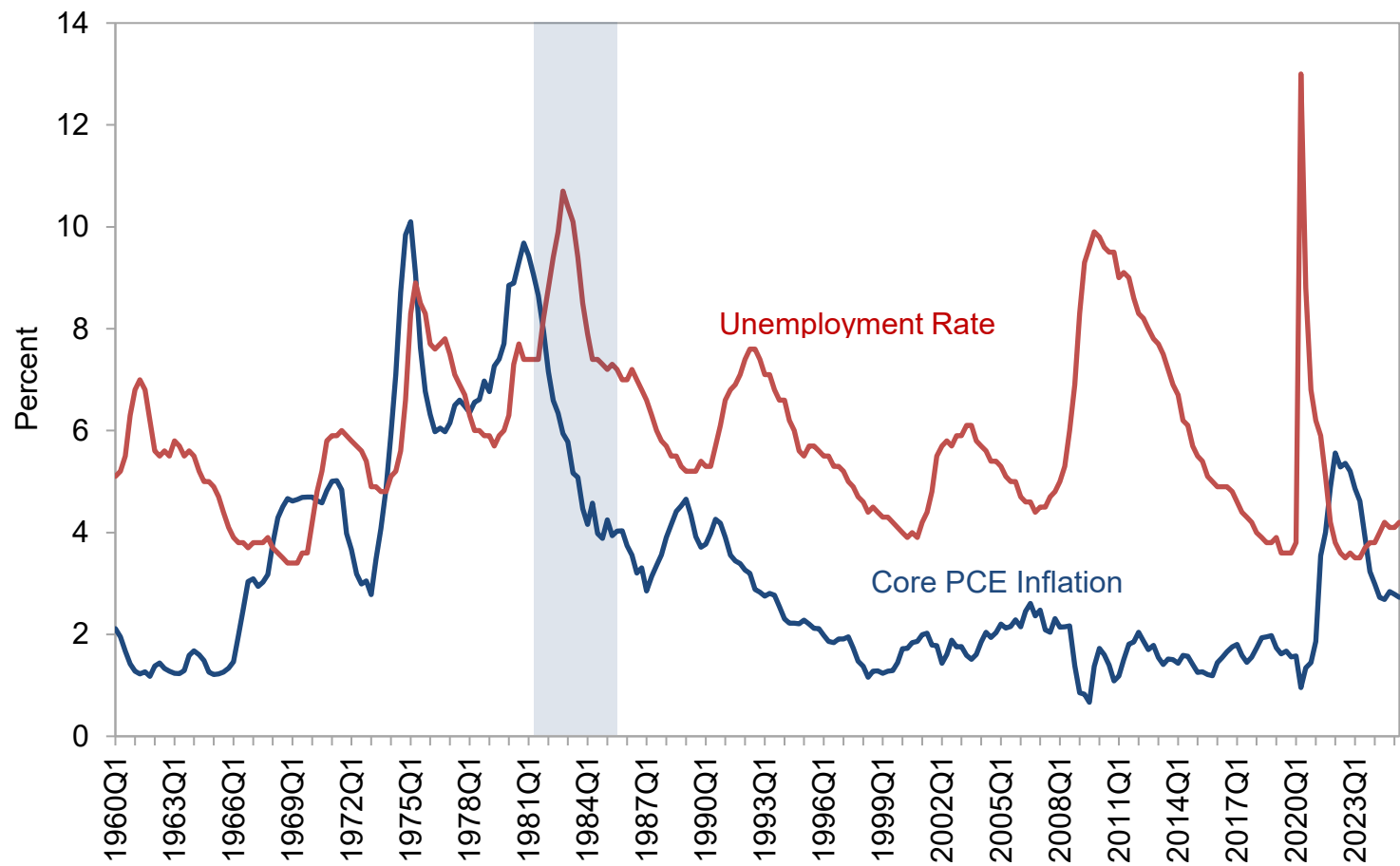
III. ROWING IN OPPOSITE DIRECTIONS

U.S. High-Employment Surplus and Federal Funds Rate 1978–1983



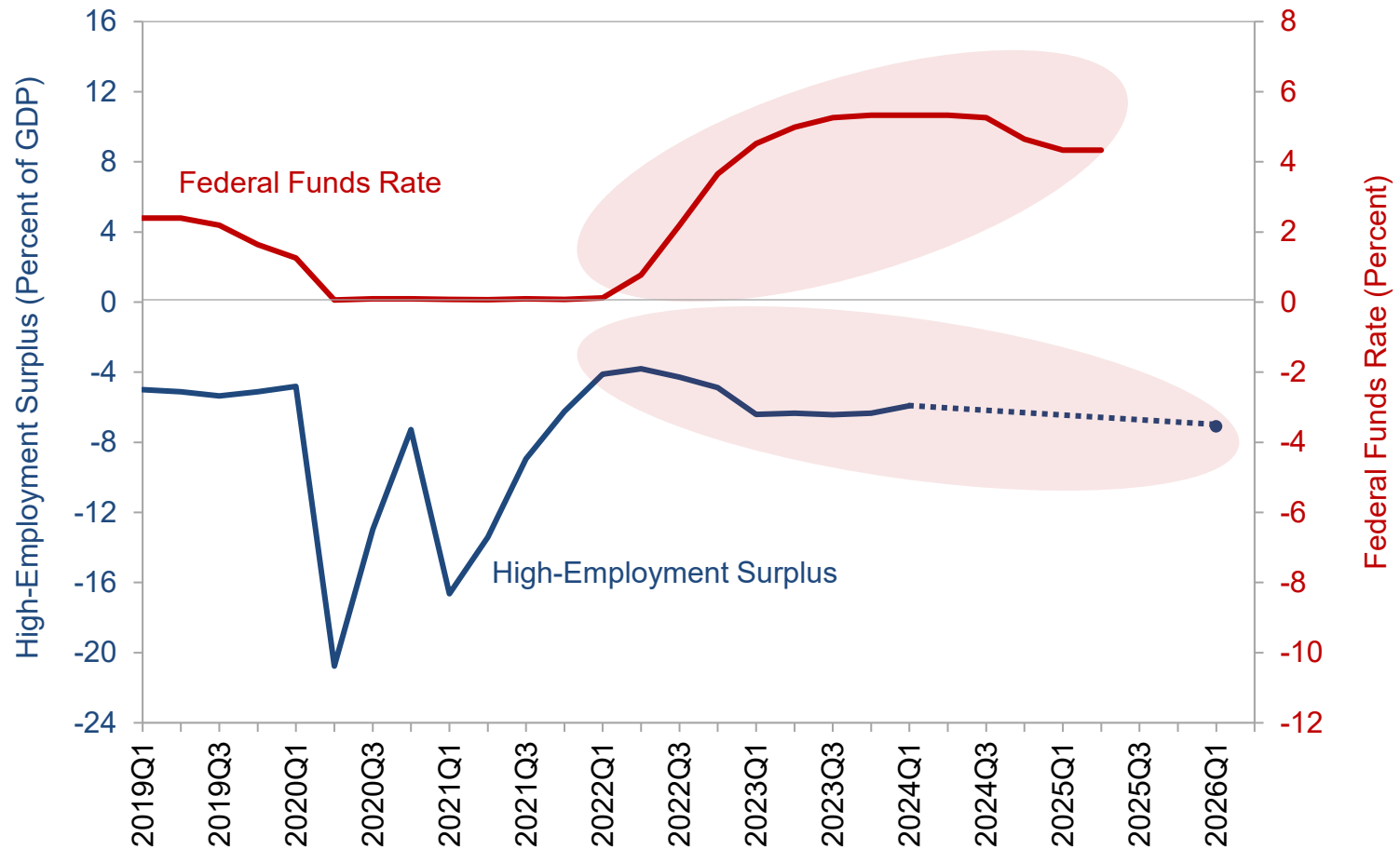
(Board of Governors of the Federal Reserve System, US Congressional Budget Office)

Core Inflation and Unemployment, 1960–2025



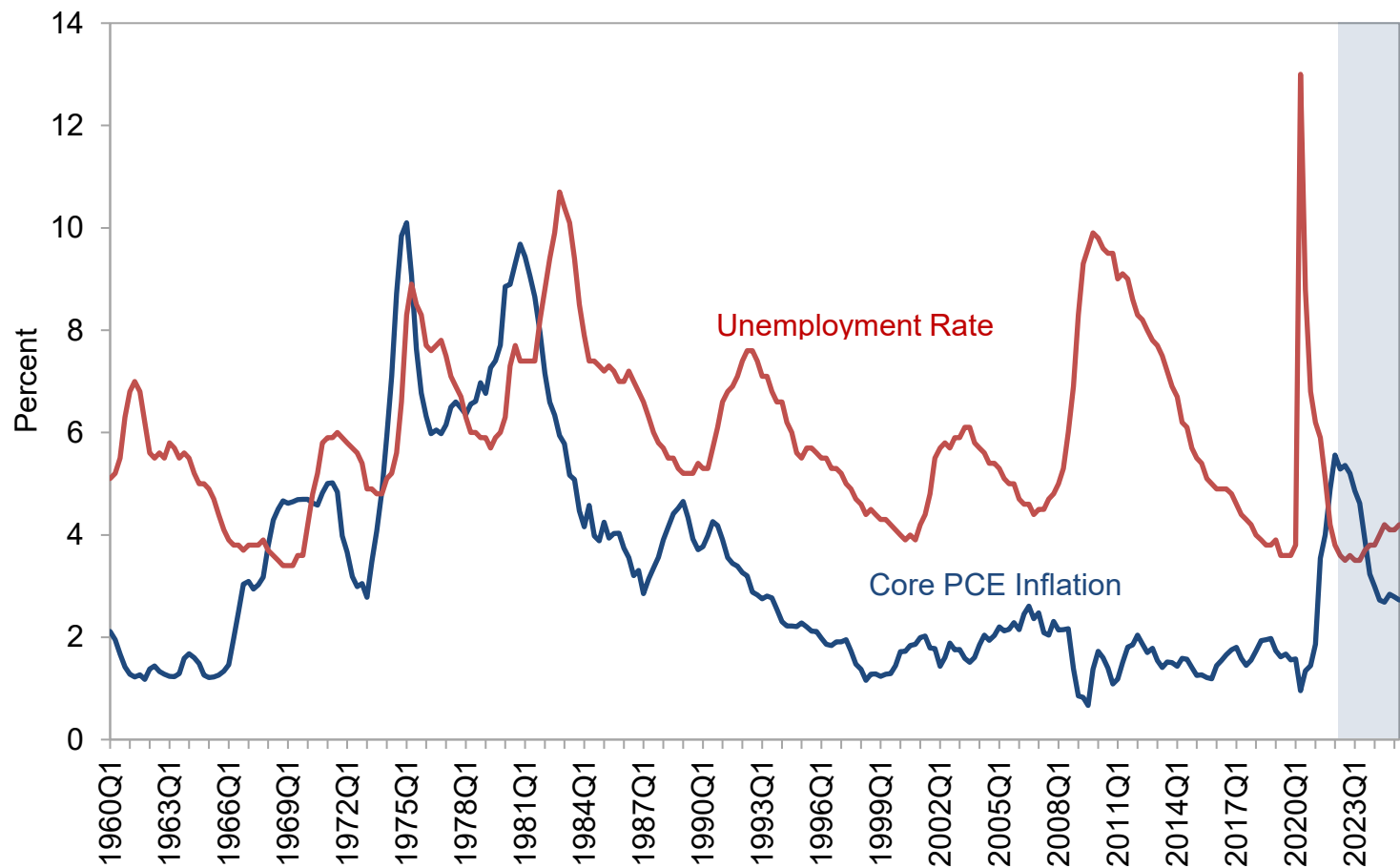
(US Bureau of Economic Analysis, US Bureau of Labor Statistics)

U.S. High-Employment Surplus and Federal Funds Rate 2019–2023



(Board of Governors of the Federal Reserve System, US Congressional Budget Office)

Core Inflation and Unemployment, 1960–2025



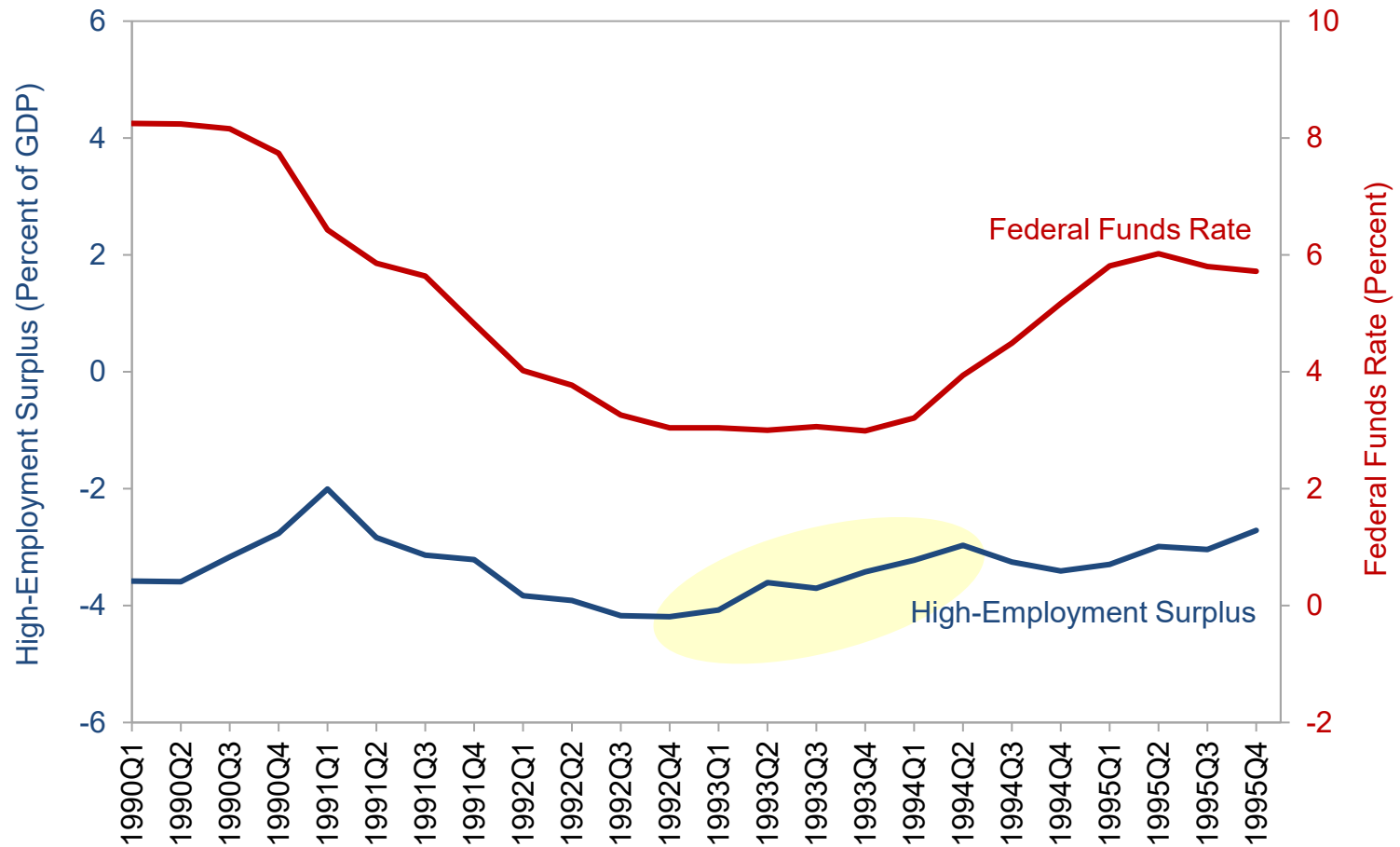
(US Bureau of Economic Analysis, US Bureau of Labor Statistics)

Lessons and Implications

1. Sometimes a lack of policy coordination can be a blessing.
 - Independence of thought across policymakers is very valuable.
2. Central bank independence is essential.
 - It is a crucial safeguard to policy coordination in the wrong direction.

IV. ROWING APART ON PURPOSE

U.S. High-Employment Surplus and Federal Funds Rate 1990–1995



(Board of Governors of the Federal Reserve System, US Congressional Budget Office)

The Washington Post
Democracy Dies in Darkness

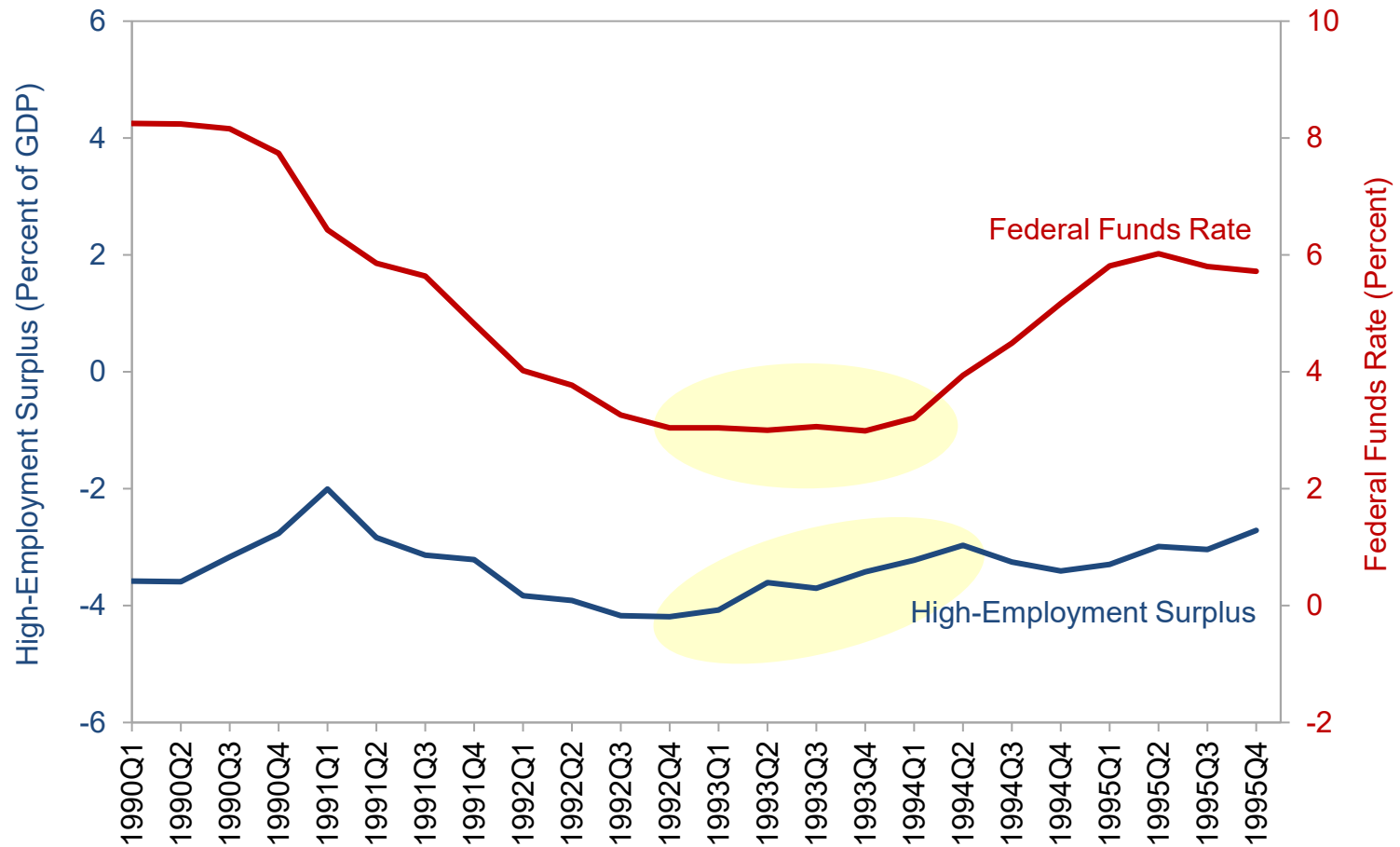
THE FED CHIEF'S UNLIKELY ALLIANCE



The Fed chairman indicated in recent congressional testimony that he believes that getting control of the deficit is the nation's most urgent economic policy problem. And even though he has long been an opponent of higher taxes, his worry about the potential impact of the looming deficits on financial markets and the economy outweigh his feelings about taxes.

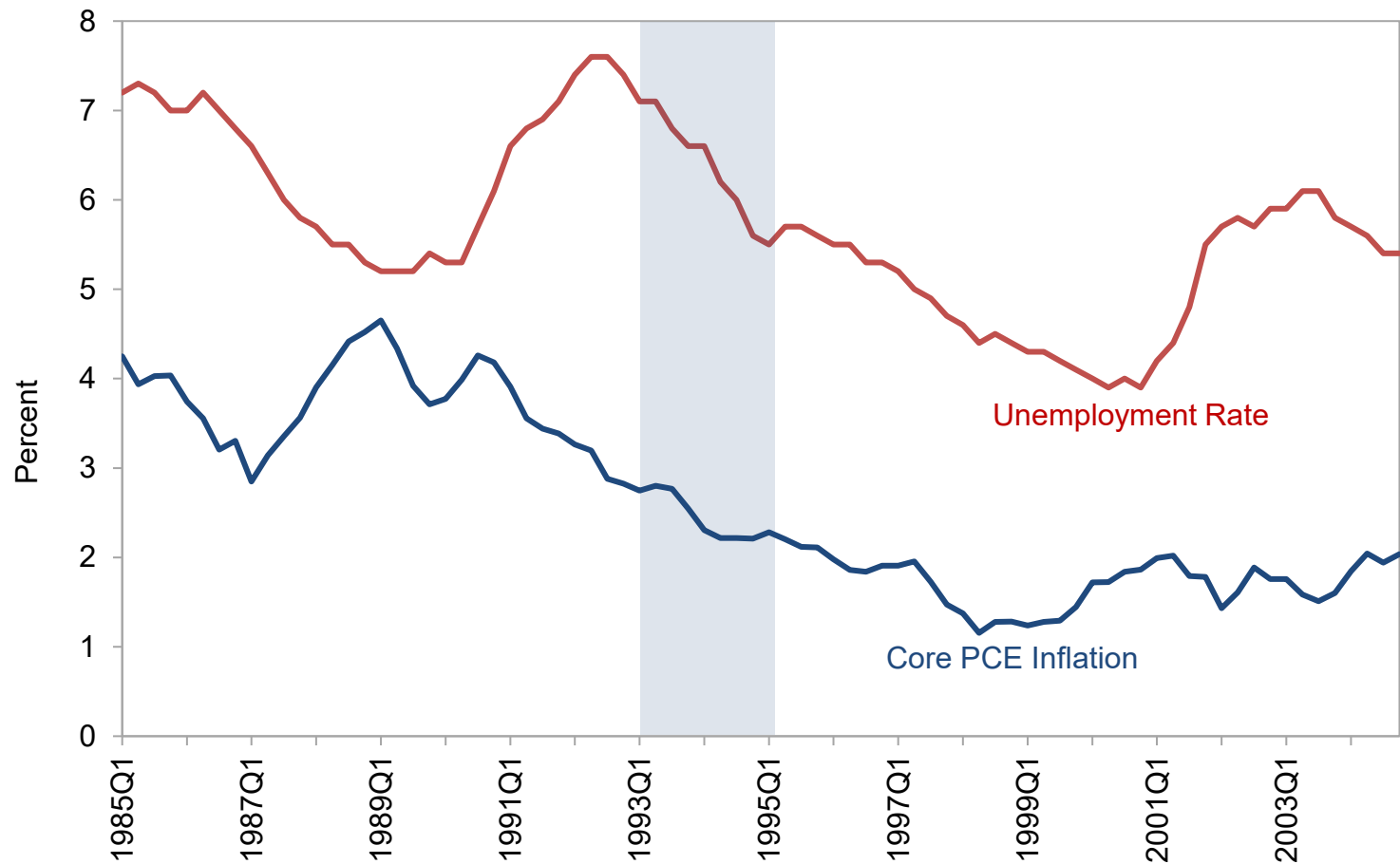
(Washington Post, March 21, 1993)

U.S. High-Employment Surplus and Federal Funds Rate 1990–1995



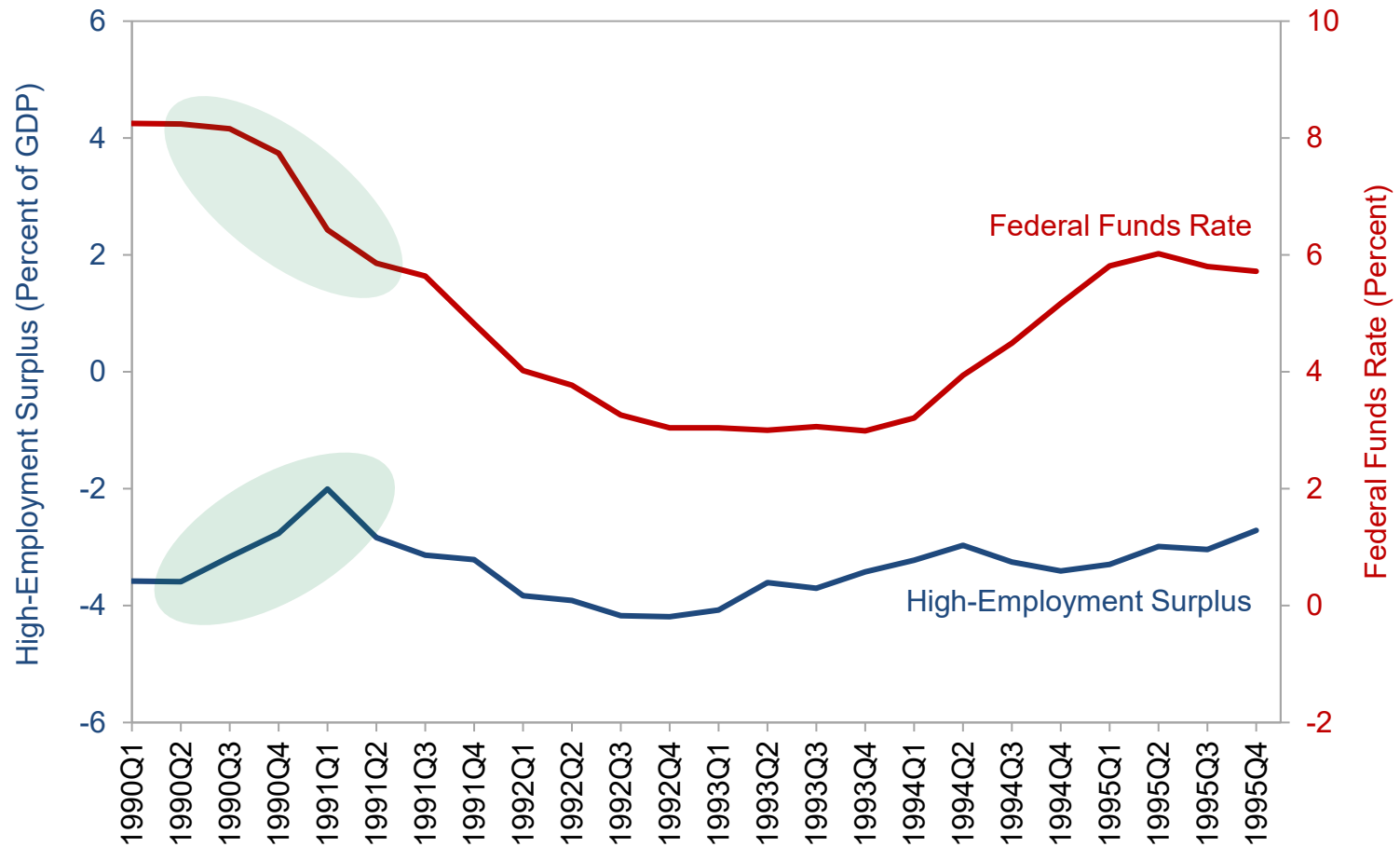
(Board of Governors of the Federal Reserve System, US Congressional Budget Office)

Core Inflation and Unemployment, 1985–2004



(US Bureau of Economic Analysis, US Bureau of Labor Statistics)

U.S. High-Employment Surplus and Federal Funds Rate 1990–1995



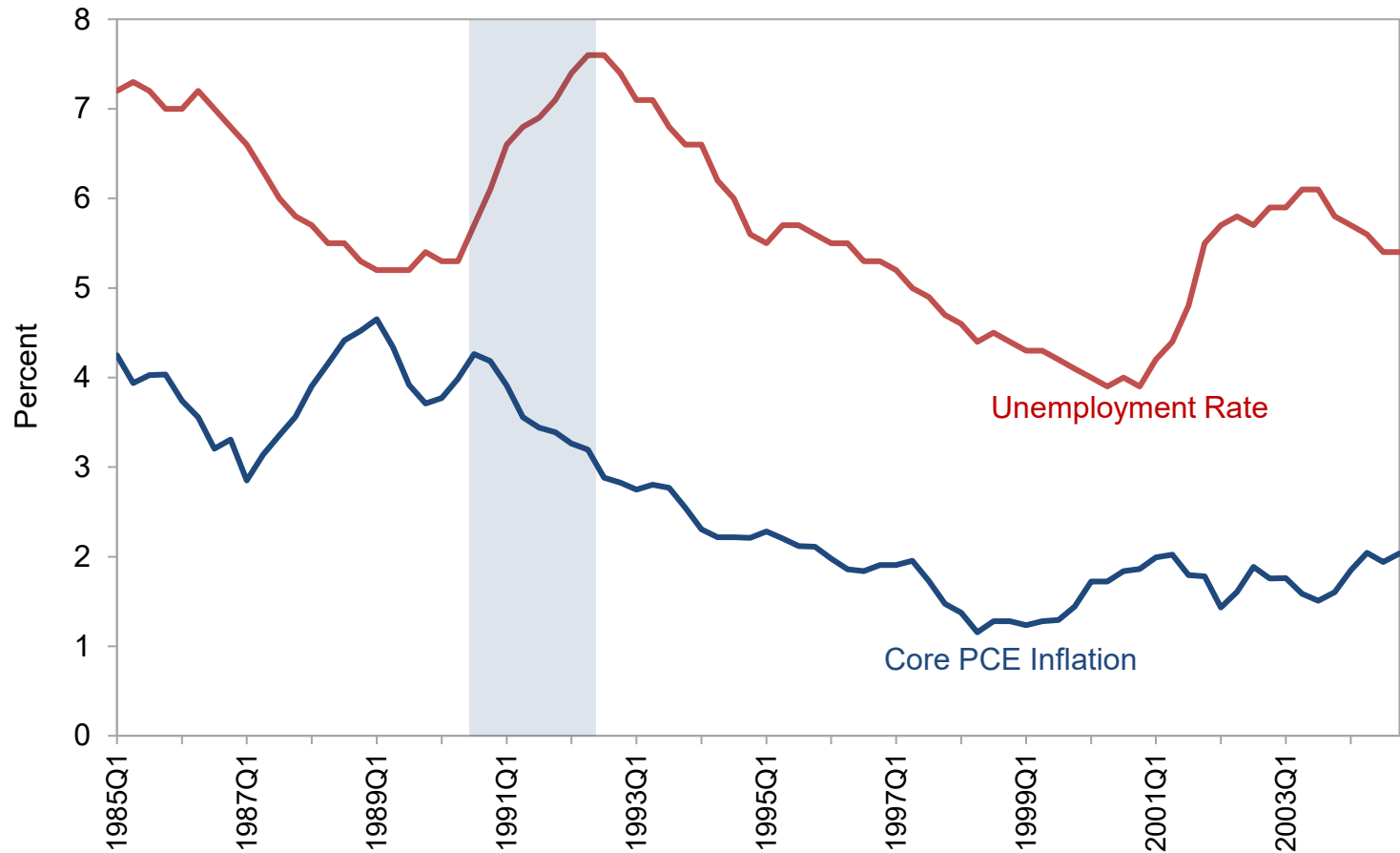
(Board of Governors of the Federal Reserve System, US Congressional Budget Office)

Federal Reserve Chair Alan Greenspan:

“what I would recommend at this particular stage, in the context of all of this, is that we go asymmetric toward ease today with an understanding that if the budget resolution passes we go down 25 basis points.”

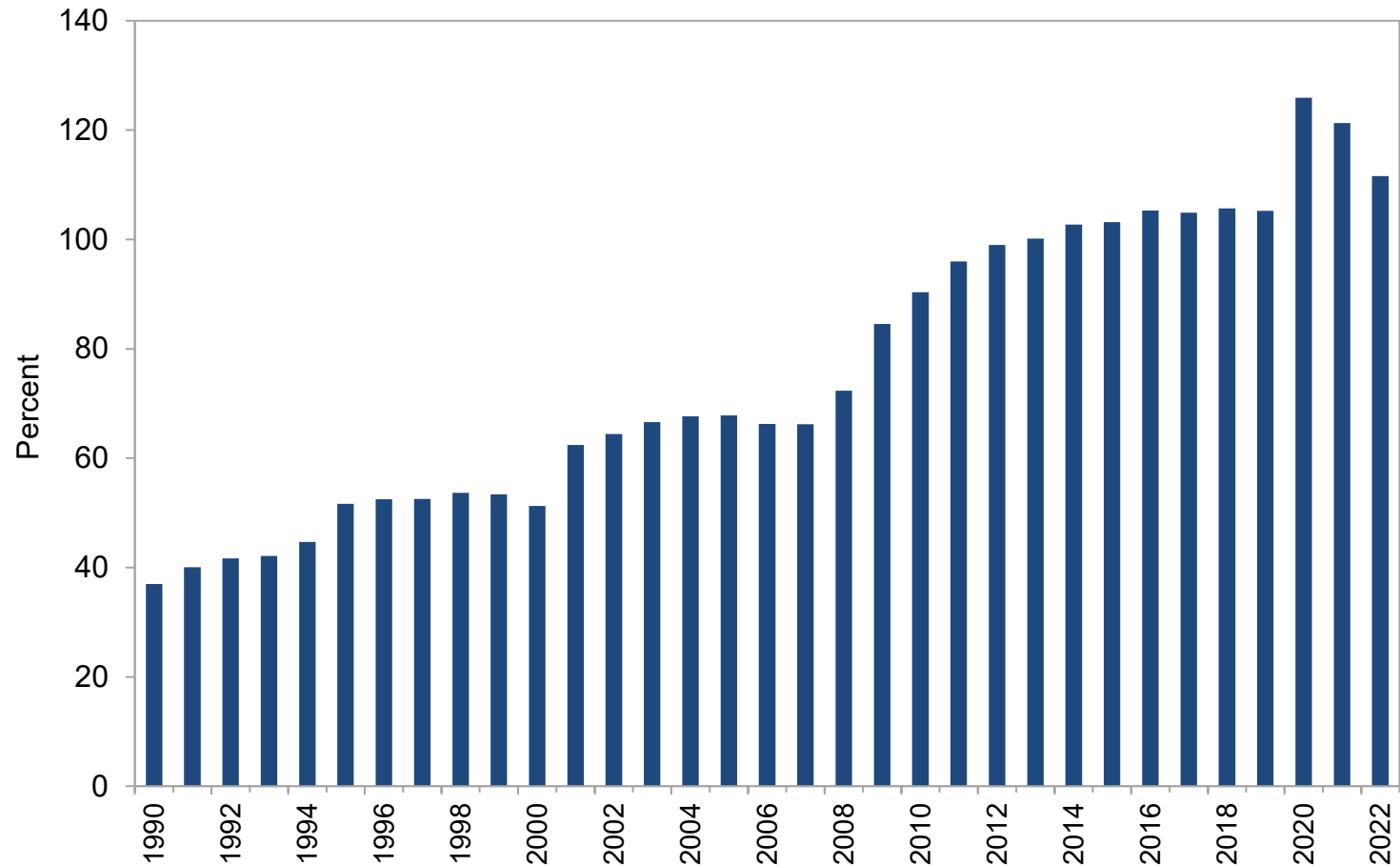
(FOMC Transcripts, 10/2/1990, p. 41)

Core Inflation and Unemployment, 1985–2004



(US Bureau of Economic Analysis, US Bureau of Labor Statistics)

Average Debt-to-GDP Ratio in OECD Countries



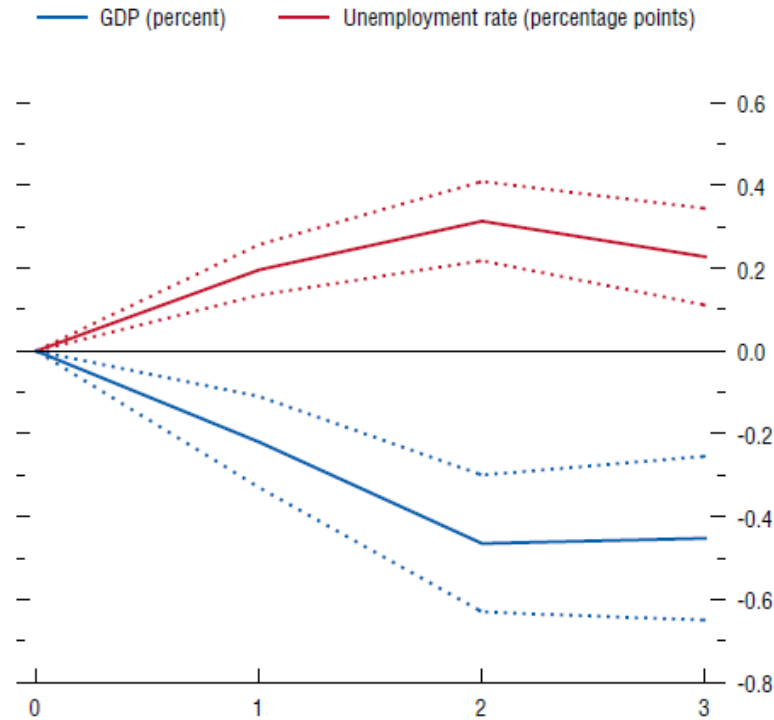
(World Bank, World Development Indicators)

Lessons and Implications

1. Ideas about how the economy operates matter tremendously.
 - Central banks and Treasuries could improve the discussion by using their research capabilities to investigate the risks of high debt.
2. Monetary policy has a crucial role to play in lessening the impact of fiscal consolidation.

Figure 3.2. Impact of a 1 Percent of GDP Fiscal Consolidation on GDP and Unemployment

Fiscal consolidation is normally contractionary. A fiscal consolidation equal to 1 percent of GDP typically reduces real GDP by about 0.5 percent and raises the unemployment rate by about 0.3 percentage point.



Source: IMF staff calculations.

Note: $t = 1$ denotes the year of consolidation. Dotted lines equal one standard error bands.

(IMF World Economic Outlook, "Will It Hurt? The Macroeconomic Effects of Fiscal Consolidation, October 2010)

Lessons and Implications

1. Ideas about how the economy operates matter tremendously.
 - Central banks and Treasuries could improve the discussion by using their research capabilities to investigate the risks of high debt.
2. Monetary policy has a crucial role to play in lessening the impact of fiscal consolidation.
3. An independent, reliable fiscal scorekeeper is vital.
 - For monetary policy to play its counteracting role, policymakers need accurate information.

V. CONCLUSIONS