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INTRODUCTION

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The January 2014 inaugural event of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution focused on lessons that the Federal Reserve and other central banks have—or should have—learned from the most severe financial crisis the world economy has weathered in seventy-five years. The session was an encouraging beginning toward our goals of increasing public understanding of fiscal and monetary policy and improving the quality and efficacy of those policies. As Brookings President Strobe Talbott said in his introductory remarks:

> Monetary and fiscal policies are the purview of different parts of the federal government, but they have in common two goals: easing our economic woes, particularly the persistence of high unemployment, while at the same time ensuring that decisions that we make today on spending, taxes, interest rates, and financial regulation lay the foundations for a better life for our children and grandchildren.
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> That means fiscal and monetary policies need to be consistent and compatible if we are to accelerate our recovery from the recent crisis and ensure a healthy economic future. This is a classic challenge to the Brookings mission, which is contributing to the improvement of our system of governance. It's an opportunity to apply the Brookings method which is to convene the best experts;

> pose the right questions; marshal relevant facts; generate innovative, pragmatic, actionable ideas; debate their merits in a civil, constructive, nonpartisan fashion; engage the public, the private sector, and the policy community, and then advocate for sound policy.

Glenn Hutchins, whose family foundation provided the gift that created the Hutchins Center, added,

> At Brookings we are uncompromising in our zeal to protect and promote the independence of our scholars. This is because we are committed to producing only the very highest quality, most data-driven, most rigorous research humanly possible. And we fundamentally believe that can only be accomplished when our scholars are absolutely free to pursue their research to its logical conclusion without ideological or financial fear or favor.

In that spirit, we asked John Williams, president of the Federal Reserve Bank of San Francisco, to reflect on lessons he has gleaned from the past five years of extraordinary, unconventional monetary policy. He said central bankers should not assume, as they once did, that episodes in which short-term interest rates fall to zero will be infrequent or short-lived. In his view, the Fed's experiments with "forward guidance"—promising to keep rates low for a long time—and with large-scale purchases of bonds and mortgages ("quantitative easing") have been successful, although he acknowledged that quantifying their efficacy has proved difficult. He highlighted three unresolved issues:

—Should central banks shift from inflation targets to price-level or nominal GDP-level targets?

—Should large-scale asset purchases be a standard tool of monetary policy, and if so, how should they be implemented?

—Is the 2 percent inflation target in common use by central banks high enough?

We then turned to an occasional critic of the Fed, Martin Feldstein of Harvard University. He broadened the discussion to inadequacy of fiscal policy, which, he said, put too much burden on the Fed during and immediately following the crisis. We invited Paul Tucker, now at Harvard University after serving as deputy governor for financial stability of the Bank of England, to identify where postcrisis reforms for the

financial system have gone far enough—and where they haven't. He had praise for the strengthened regulation of banks but warned that too little has been done to address risks posed by financial markets. He outlined the new approach being followed in the United States and elsewhere to protect taxpayers from paying for future bank bailouts while preserving financial stability in the face of failure. That approach essentially requires the bank-holding companies to hold enough equity and debt to absorb any losses at their subsidiaries and be reconstituted immediately as going concerns. That approach essentially requires the bank-holding companies issue enough equity and long-term debt so that the parent company—as opposed to taxpayers—can absorb any banking losses. Rodgin Cohen of Sullivan & Cromwell, one of the leading banking lawyers, was concerned about the international complications involved in resolving global institutions, and he offered a few modifications to Paul Tucker's proposal.

We also asked our colleague Donald Kohn, a former Federal Reserve vice chairman, to assess the risks to the Fed's independence in the wake of the crisis. In his view, the risks are substantial and unwelcome because politically independent central banks have been proven to be an essential bulwark against inflation. In responding, Christina Romer of the University of California at Berkeley argued that the main reason to shield central banks from political interference is not to resist inflation, but because monetary policy made by experts is better than policy made by politicians. The biggest threat to that independence, she said, comes from bad monetary policy decisions. Kenneth Rogoff of Harvard University was more sympathetic to Kohn's view and expressed concern that today's environment is one in which central bank independence could prove very difficult to preserve.

All this provided substantial fodder for thinking and rethinking the recent past and offered an agenda for future research and policy. That alone would have been fruitful, but we concluded with an illuminating interview with Ben Bernanke, then in his final weeks as chairman of the Federal Reserve, by Liaquat Ahamed, a Brookings trustee and author of the Pulitzer Prize–winning *Lords of Finance: The Bankers Who Broke the World*.

Perhaps the most telling moment came when Ahamed recalled that then-Treasury Secretary Tim Geithner once referred to Ben Bernanke as

the “Buddha of central bankers”—and asked if Bernanke had suffered any sleepless nights during the crisis. Bernanke said he had, adding, “It was kind of like if you’re in a car wreck. You’re mostly involved in trying to avoid going off the bridge, and then later on you say, ‘Oh, my God. . . .”

This volume includes a lightly edited transcript of that conversation as well as the reflections of Williams, Tucker, and Kohn and the wide-ranging discussion with the panelists and the audience that followed. You can keep track of the evolution of the Hutchins Center on Fiscal and Monetary Policy on the website: www.brookings.edu/hutchinscenter.