

EDITOR'S NOTE

This issue of the *Cato Journal* features papers from Cato's 34th Annual Monetary Conference, "Central Banks and Financial Turmoil," which was held in Washington on November 17, 2016. The conference, hosted by Cato's Center for Monetary and Financial Alternatives and generously supported by a grant from the George Edward Durell Foundation, brought together leading scholars and policymakers to examine the link between unconventional monetary policy and financial fragility. History has shown that monetary activism is a chief cause of financial booms and busts. The Fed's unconventional monetary policies have distorted interest rates and asset prices, misallocated credit, encouraged risk taking, increased leverage, penalized savers, and increased uncertainty—all of which have had a negative effect on productive investment, innovation, and growth. Any short-term benefits of near-zero interest rates, quantitative easing, forward guidance, and increased regulation must be weighed against those costs.

Unconventional monetary policy has shifted attention from the long-run objectives of price stability and stable growth of money and credit to keeping short-run interest rates near zero and maintaining the Fed's bloated balance sheet. The failure of the Fed and other central banks to create robust economic growth following the Great Recession should not be a surprise: "monetary stimulus" cannot generate sustainable real economic growth. Zero or negative interest rates and large-scale asset purchases have created severe distortions in asset markets by underpricing risk and inflating asset prices. When rates rise and the Fed starts to trim its balance sheet, those distortions will be fully revealed—which makes it difficult to normalize monetary policy for fear of triggering a crisis. But the longer the Fed waits to do so, the higher the risks of further turmoil and another balance-sheet recession.

The contributors to this volume explore the risks inherent in unconventional monetary policy, the steps needed to restore monetary and financial stability, and the policies needed to foster long-run growth. Some key issues include:

- How have recent monetary and regulatory policies contributed to uncertainty and financial imbalances, and how should they be reformed?
- How can the Fed exit unconventional monetary policy?
- How can the Fed exit its intrusion into fiscal policy and credit allocation without creating financial turmoil?
- Did the Fed plug up the monetary transmission mechanism by paying interest on excess reserves and by overzealous macroprudential policies?
- What types of monetary institutions/rules could reduce uncertainty and promote stability?

In discussing these and related issues, the contributors to this volume confront the uncharted waters of unconventional policies and offer valuable insights about how to move toward a more transparent and robust monetary system.

—J. A. Dorn