Welcome. I am looking forward to a fascinating and productive discussion over the next two days from the speakers, the discussants, the panelists and the participants in the audience.

I would like to begin by reviewing the theme of the conference and what we hope to learn. From the initial planning the main purpose of this conference has been to put forth and discuss a set of policy recommendations that are consistent with and encourage a more rules-based policy for the Federal Reserve, and would thus improve economic performance, especially in comparison with the past decade. The idea was to base these recommendations as much as possible on economic theory, on data, and especially on the history of the past century. It is natural to do so at the time of the Centennial of the Fed.

The recommendations in the technical papers prepared in advance of the conference set the stage for the discussion and the panels to come in several ways. It is worth mentioning these as we begin.

In his paper for the first session, John Cochrane recommends three things: first that the short-term interest rate should be in the future determined by setting interest rate on reserves; second, that the rate should adjusted according to a policy rule; and third, that the resulting large reserve balances at the Fed should not be used for discretionary interventionist policies, such as quantitative easing, which he argues have done little good. We may hear some discussion about whether political economy considerations render the third point hard to achieve in practice.

David Papell’s paper, which will come next, gives a statistical foundation for the overall theme. He uses formal statistical techniques to determine when in history monetary policy was rule-like, and he finds the rule-like periods coincide remarkably well with periods of good economic performance. A clear policy recommendation emerges directly from his statistical findings.

Marvin Goodfriend’s historical review of the Fed’s first century leads him to recommend a new “Fed-Treasury Credit Accord” which would have a “Treasuries only” asset acquisition policy with exceptions only in the case of well-specified lender of last resort actions. This would deal with the recurrent mission creep problem where a limited purpose institution takes on other actions for which it was not granted independence.

Michael Bordo’s key policy recommendation nicely dovetails with Marvin Goodfriend’s. He recommends, again based on an examination of the history of the Fed, that, in order to prevent and deal with crises, the central bank needs to lay out and to announce a systematic rule
for its lender of last resort actions, linking his policy recommendation to what has worked and what has not worked in practice.

Lee Ohanian puts monetary policy in the context of big real economic shocks that are caused in large part by other economic policies—a situation which many have argued characterizes the economic situation today. He finds that discretionary Fed policy responses to these major shocks have in some cases, negatively impacted the economy. Also timely is his warning that overestimating the risks of deflation can lead monetary policy astray.

Andrew Levin recommends that a good communications strategy for systematic monetary should recognize that the reference policy rule may change over time. He usefully focuses on the possibility of a change in the terminal or equilibrium federal funds rate, such as a decline from 4 percent now assumed by most FOMC members to perhaps as low as 2 percent as Richard Clarida has argued in a new paper with Bill Gross his colleague at PIMCO.

And we will also hear from Richard Clarida that policy rules work quite well in an international setting and lead to a smoother operating global monetary system with smaller spillovers. He also argues that a policy rule framework will “re-emerge as the preferred de facto if not de jure construct for conducting, evaluating, and ultimately for communicating monetary policy” Here his use of the word de jure is important for it suggests that some legislation may be needed to bring these reforms about and keep them in place. That is an important and timely issue which I hope we can discuss in the next two days.

Regarding that discussion, please note that we are fortunate to have a number of members of the media participating today, and that we will be operating under Jackson Hole rules in which discussion during the formal meetings is on the record.

We will be audio taping the conference so as to better prepare the conference volume. When commenting from the floor, please say your name, so our transcriber, Kristen Weiss, will be able to identify you later.

Finally, we will conclude tonight with a dinner at the Stanford Park Hotel where President Esther George will speak. If for some reason your plans have changed and you would either like to attend or cannot attend the dinner, please let the staff at the registration desk know.

So let’s get started.