SYMPOSIUM ON

The Future of Central Bank Balance Sheets

Introduction

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Welcome.

If you are owing fealty to one side or the other in the curiously heated debate as to whether the Fed should add another "dot"—or twenty-five bps interest rate increase—to its forecasts this year, then our panel discussion will be of scant interest.

But if you are paying heed to the more consequential issues confronting the Fed and other large central banks, then my fellow panelists will not be strangers to you, nor will the issues we discuss.

The Fed's balance sheet is where the money is.

We will hear first from a leading Fed official who has day-to-day responsibility for the Fed's balance sheet. Then we will listen to the perspectives of a few of my fellow Fed retirees. The speakers will summarize their views, then I will encourage a discussion among my fellow panelists. Finally, we will open up the discussion to questions and comments from the assembled experts in the audience.

For those of us who were present at the creation of quantitative easing (QE), we cannot forget the ad hoc nature by which we initiated balance sheet expansion in the crisis. Nor should we lose sight of the frequent and consequential changes to the Fed's stated purpose of QE, its effects on real and financial assets, and the Fed's shifting exit plans in the decade that followed.

You will hear a range of views on benefits and risks of continued large central bank balance sheets in the post-crisis era. But one's ultimate judgment on the wisdom of the experiment—and the future of QE—may depend upon several things, which the panelists should explore:

- Whether the transmission mechanism and effects of QE are fundamentally different than standard interest rate policy
- Whether the implementation of QE injects liquidity neutrally
- Whether the Fed should possess a heightened, permanent role in the provision and allocation of credit in the financial system
- Whether a handful of large firms at the core of our financial system—they used to be called too-big-to-fail and now are deemed systemically significant—is necessary and desirable
- Whether market price signals are precious or should be readily supplanted by government-administered prices.

To put the moderator's cards on the table, I will offer a few words.

The Fed appears lonely in its belief that post-crisis QE did not have significant effects on the prices of financial assets. And the Fed appears unmoved by the distributional consequences. Despite all-time highs in stocks and home prices, household net worth since 2007 is down for all income groups except for the top 10 percent since 2007. Net worth for the top decile is up an average of 27 percent; for the middle deciles, it's down 20 to 30 percent in real terms.

Central bankers, especially in non-crisis periods, ought not to be fiscal policy makers with tenure. Better, in my view, to yield fiscal policy to the other branch, no matter one's judgment on the wisdom of its policy choices . . . wiser for the Fed in peacetime to leave itself with a somewhat smaller, clearer responsibility in the conduct of monetary policy . . . and smarter for the Fed to possess a keen, concomitant focus on issues of financial resiliency in advance of the cycle turning.

Not long ago, General Jim Mattis roamed these halls at Hoover, reminding us that all war plans must have an end state. In our panel discussion, we will probe what is the end state for the Fed's balance sheet and question the prudence of unconventional policies' standing in the central bank's *conventional* toolkit in times of peace. In our discussion, we should be candid about our choices and humble about what we know of the Fed's incomplete experiment, even a decade later.