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Treasury Committee

Appointment of Dr Adam Posen to the Monetary Policy Committee of the Bank of England

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Oral and written evidence

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Witness

Tuesday 14 July 2009

List of written evidence

Oral evidence

Taken before the Treasury Committee

on Tuesday 14 July 2009

Members present

John McFall, in the Chair

Nick Ainger	John Thurso
Mr Graham Brady	Mr Mark Todd
Mr Michael Fallon	Mr Andrew Tyrie
Ms Sally Keeble	Sir Peter Viggers

Witness: **Dr Adam Posen**, External member of the Monetary Policy Committee, Bank of England, gave evidence.

Q1 Chairman: Good morning, Dr Posen. Welcome to the Committee for this hearing. Can you formally introduce yourself for the shorthand writer, please.
Dr Posen: Chairman and Members of the Committee, my name is Adam Posen. I am here to be considered for the appointment to external member of the Monetary Policy Committee of the Bank of England. I am very grateful to the Committee for taking the time to work me in before the summer recess.

Q2 Chairman: Good. Thank you for the very full response to our questionnaire. It has been very helpful to us. I noticed a couple of things in it. You mention that you have global exposure as a public speaker and media commentator and you are among the most quoted economist globally in the financial press and electronic media. You also respond that you successfully turned yourself into "one of the world's leading experts on first the German and then the Japanese economies, as well as on the economy of my home country." As a Committee we are concerned that you maybe suffer from a degree of lack of self-esteem! I wonder if you are taking counselling for that.
Dr Posen: My humble, down-to-earth manner certainly is worthy of note. I apologise for seeming a bit too over-eager in the write-up. My effort was to try to provide reassurance to the Committee that this was not Sarah Palin in action!

Q3 Chairman: I am a bit cautious in asking this question because you do say in your questionnaire that you are "not yet completely up to all aspects of the UK economic situation with the depth of detailed knowledge that [you] would like to have." Given your past record, did you get yourself up while waiting to come into this room?
Dr Posen: Not in the last six hours, no, but over the last several weeks and over the next several months. I appreciate your asking me that, Chairman. The people of the United Kingdom deserve to have on the MPC the absolute best and people who know their economy very well. My statement that I am not absolutely up is actually my attempt to be down-to-earth and humble. I am pretty expert, but I do not want to pretend to have been spending the last 10 years directly forecasting the UK economy because I have not. In the written comments I gave a very extensive programme of how I intend to address whatever shortfalls remain in my knowledge, primarily meeting with a huge number of the people I know here in the UK who are the experts, many former MPC members, many of the people working in the city, people working in industry, people working in academia. I have already commenced re-reading quite carefully all the inflation reports and all the minutes of the last several years of the Bank, which I read as they came out but which I am reading a bit more carefully now. My second point, not meaning to sound defensive, is that everybody on the MPC, at least among the externals, comes to it from a different background. There are people who were appointed whose background was in housing or aircraft or whatever it may be, who may have more specific UK knowledge but did not have my background in monetary policy macroforecasting, and so they had to come up to speed on that aspect. I take this very seriously. It is a serious responsibility.

Q4 Chairman: You are going to stay here in the UK during your tenureship.
Dr Posen: Yes.

Q5 Chairman: I notice in the *Economist* of 27 June that you were talking about Angela Merkel and you said: "She does not seem to understand the basics of economic policy." Do other politicians suffer from that deficit like Ms Merkel?
Dr Posen: Certainly no-one on this Committee. The issue is that I made the mistake of talking about an individual rather than a policy and I did that to a German newspaper back in January.

Q6 Chairman: It was about fiscal stimulus, was it not?
Dr Posen: Yes.

Q7 Chairman: Maybe you could elaborate on that.
Dr Posen: Yes, I would be happy to do so. Leaving aside the question of politicians, the specific policy was that Chancellor Merkel and her Foreign Minister from the Social Democrats were both strongly opposed to efforts at fiscal stimulus in the

US, UK and elsewhere in Europe and it was premised on two false premises. The first was that if you spent the money it would do no good because people would immediately save just as much as you were spending. There is a lot of economic research on this and it is just simply not true. The second point was that she was very insistent that this would immediately or almost immediately lead to inflation. The whole point of doing fiscal stimulus during a downturn is that you are compensating for a lack of demand that would normally lead to inflation but in this case you are offsetting deflation. She and Finance Minister Steinbrueck both, at least in public, refuse to acknowledge these things which are facts. Right now the UK, Germany and the US are all benefiting from fiscal stimulus as a temporary measure.

Q8 Chairman: Worryingly, you note that "we have a clock ticking here in the UK as in the US and the Euro Area" in that "if you do not fix the banking system by the time your stimulus runs out, then private demand will not pick up when the stimulus runs out." Do you think we are going to beat the clock?

Dr Posen: I think, in all honesty, the UK is much closer to beating the clock than either the US or Germany or most of the other major economies. The UK—not just the Bank but the Government, everybody involved, the FSA—has, after some initial mistakes, been much more forthright in dealing with the banking problem and much more aggressive about it, but there is, as seen in the press, discussion of the fact that lending has not yet picked up. Some of that is reasonable, because there was too much lending before so it is understandable there is some comeback, but you have to look carefully at whether there is still a credit crunch, and if the banking system is not well-capitalised and not well overseen, then the credit crunch is likely to continue past the stimulus. It is a concern but I am reasonably confident it can be borne out. It will be overcome.

Q9 Chairman: You mentioned yourself being a media commentator. There is a need for MPC members as a whole to explain the position in the media and keep the public's confidence in the economy and the inflation target. Will you be willing individually to comment in the UK and get your message across as a member of the MPC?

Dr Posen: Very definitely. I feel that is one of the attractions of the job for me personally because I feel that is something I can contribute. For all my excessive self-promotion in the job application, I have always believed that a major part of my public speaking and writing is about education, is about explaining things to people. It is not about advocating particular positions. That is a clear part of the MPC role. I know that the Bank just put out a brochure on quantitative easing and it got Deputy Governor Bean on a roadshow, and if I had been a member of the MPC already I would have hoped to contribute to that effort because, broadly speaking, quantitative easing, for example, is something that is virtuous in this circumstance, important and confusing. That is an example of where I think it would be good to try to contribute.

Chairman: We have been asking other members of the MPC to heighten their profile in that area as well.

Q10 Sir Peter Viggers: As you move from your broad perspective to focus more specifically on the United Kingdom you will of course be following the discussions about the shape of the economic recovery here in the United Kingdom. What are your views on how the economy here will exit this crisis?

Dr Posen: I think the biggest thing for all of us to understand is that recoveries and forecasts are rarely smooth. There is a tendency, for example, for Japan to refer to the 1990s as the lost decade, as though it went in a smooth line, whereas it was a saw-tooth pattern. Looking ahead to the UK, I think, again in line with what Deputy Governor Bean happened to say yesterday, we are looking at a firming of conditions. It would surprise me if we are not back to positive growth by 2010, in fact possibly earlier, but it is not going to be a smooth ride. It is not that suddenly we go and we stay on a smooth track from here; it will likely be more of a saw-tooth pattern. The goal of monetary policy has to be to make sure that you are not prematurely cutting off some of those teeth. You are trying to keep them in a relatively narrow range.

Q11 Sir Peter Viggers: What do you think are the major impediments to a swift recovery? Do you think these major impediments are susceptible to action by government or by the Bank?

Dr Posen: I think a number of the impediments are not directly amenable to monetary policy action. I think monetary policy action is the necessary but not sufficient condition. In normal times, the provision of price stability is the pre-requisite for other growth. In times like this, it is anchoring inflationary expectations and making sure the credit system is elastic enough. It is the necessary condition but it is not sufficient. The other impediments I would be concerned about are, first, as was implied by the Chairman's question, the issue of: is the banking system recovered or are there enough alternative sources of financing available to industry and consumers? Second, would we at some later date—I am not worried about it right now—be facing higher interest rates in a significant way due to government borrowing? Again, I do not worry about that at present but that is something you have to worry about in the future. Third, there is an issue of adjustment. A very large portion of the UK economy was involved in financial services and involved in not export-oriented industries. Over time, one would expect that there is some shift of workers and capital into other industries, and that will take a bit of adjustment. Those would be my three main sources of non monetary impediments to our recovery.

Q12 Sir Peter Viggers: You will have followed the discussion about a balance-sheet recession. What do you understand by this term? Do you think we are currently in a balance-sheet recession?
Dr Posen: I am aware of this term and the discussions of it. I personally do not find it a very compelling concept. The idea of a balance-sheet recession, as I have read it and understand it, is that there is a debt overhang, be it on companies or households, and as a result they are unwilling to spend or invest because of the debt hanging over them. Clearly there are individual business firms and individual households for whom that is true. The macroeconomic evidence across most countries, however, is that it does not really work that way. Individuals and businesses for the most part do adjust. Banks in the end do take losses as necessary. Refinancing is available—again not for every individual, not for every sector of society—but a market economy like the UK tends to adjust. The tendency to refer to balance-sheet recessions is associated, not in all cases but usually, with a sort of fatalistic response to the recession: "Well, *alea iacta est*—the die is cast—we've got this burden and we cannot work it off very quickly." Even in the Great Depression in the US, for example, there was rapid recovery after a couple of years once policy mistakes were rectified. So I personally think it is a factor in forecasting—it is particularly a factor in identifying which sectors of society and which businesses are in trouble—but it is not a major component of a forecast.

Q13 Sir Peter Viggers: If the United Kingdom economy is sufficiently flexible and sophisticated to avoid a balance-sheet recession, do you think other countries are in balance-sheet recession?
Dr Posen: I think they will vary, for the reasons you said about which countries are more able to adapt. That has something to do with legal codes like bankruptcy and the terms of mortgage agreements. It has something to do with the nature of the financial system and its ability to be flexible. It has something to do with cultural attitudes (which I as an economist am not in a position to talk about). I think there are countries on the European Continent, for example in Eastern Europe and in Southern Europe, where the balance sheet issue will be larger because it does not have that kind of financial flexibility.

Q14 Mr Tyrie: You said a moment ago that you thought we would return to positive growth in 2010 and possibly earlier. Do you think there is any realistic prospect of a period of above-trend growth? If so, for how many years over the next three or four years?
Dr Posen: Mr Tyrie, it is an entirely fair question and I am going to be, briefly, a bit squirrelly, because I think I should have the benefit of at least one cycle through the MPC process and hearing what the other members of the MPC have to say before commenting too directly on that. In broad terms, there is the possibility of above-trend growth, and one has to hope for that if one is going to reduce unemployment from its current level, but, as I tried to indicate with my earlier answer about the saw-tooth pattern, I do not foresee the UK or any other major UK economy getting on a smooth, above-trend path for at least the next couple of years.

Q15 Mr Tyrie: You think it is unlikely.
Dr Posen: I think it is quite unlikely.

Q16 Mr Tyrie: With all this talk of balance-sheet recessions, you have done quite a bit of work on the lessons that Europe can draw from Japan's experience, to which you have already alluded. Do you think that there is much likelihood of us ending up having the Japanese experience of a very long period of anaemic, or in their case negative, growth?
Dr Posen: I think that is even less likely than the idea of us moving in to a rapid period of prolonged above-trend growth. Part of the reason I studied what happened in Japan was in hopes of understanding it so as to help prevent it repeating elsewhere. What I have argued and what I think now a major consensus of economists would argue is that there were very severe policy mistakes, initially having to do with tightening fiscal and monetary policy much too soon, later having to combine that with neglect of the banking system, and whatever discussions are taking place right now in the UK and in the Bank more broadly, none of them seem to be coming close to making those kinds of policy mistakes. Putting it differently, Japan should have recovered in 1995 and it should have recovered in 1998—and would have, absent those mistakes. I strongly, strongly doubt it and I will do my best to prevent the UK repeating any of those mistakes.

Q17 Mr Tyrie: One minor question of detail on your CV. Could you for the record tell us what is the Phi Beta Kappa to which you have been elected?
Dr Posen: Yes. The CV is excessively long. Again, I erred on the side of disclosure. Phi Beta Kappa is an academic honour association in the United States given to undergraduates. It is a national organisation that is decided on a college basis and I was elected to it upon graduating from Harvard.

Q18 Chairman: It is la crème de la crème.
Dr Posen: It is la crème. I am not sure it is la crème de la crème. It is cream, but it is not double cream.

Q19 Chairman: We knew you were too modest to say that and I was trying to pull it out of you.
Dr Posen: You are very kind.

Q20 Mr Brady: How do you see the US and the eurozone as a whole recovering from the present crisis?
Dr Posen: I think the US is in better shape in the immediate future than either the UK or the eurozone. It had the opportunity to engage in massive stimulus. Like the UK, it has had a decline in the currency that is paying off for it. Unlike the UK, believe it or not, the dependence on financial services and the bubble in real estate markets was somewhat smaller—very large, but somewhat

smaller. In the short term I think the US is going to do pretty well. In all honesty, I am more concerned about the bank issues coming back to the fore in the US than I am in the UK, and I am on record with my criticisms of the government's response in the US to the banking crisis there. I think there is still a lot of unfinished business.

Q21 Mr Brady: Is that why the banking crisis might come back there, rather than fundamental factors in the US economy?
Dr Posen: Depending how you label fundamentals, yes. I think there has been insufficient discipline put on a number of banks that are in a weakened state and insufficient aggressiveness of government response to that. I commend them for the fiscal and monetary policies but I am concerned about the regulatory policies. A second factor in the US that it is worth considering in the UK, though it is by no means as clear in the UK, is that there was a downshift in potential growth in the US. The rate of productivity growth and the rate of population growth slowed markedly even before the crisis. Some colleagues and I from the Peterson Institute were already remarking on this in 2007 and if you go back to the Federal Open Market Committee minutes from before the crisis they are already starting to talk about it but of course it gets lost in the crisis. When Mr Tyrie speaks about above-trend growth, the trend growth rate in the US is down from what it was, so even above-trend growth there is going to be slower. Looking at Continental Europe or the euro area more specifically, I am more pessimistic. Even though there are a couple of countries, notably Germany and France, which are obviously very important that did not suffer the same sort of real estate boom-bust that the Spains, Irelands and Eastern Europes did, Germany at least has a very damaged banking system that they have also been very unwilling to confront sufficiently. Arguably I would make the case—again this goes back to the question of flexibility of different systems—that these are much more bank-dependent economies, much less flexible financial systems, so if the banking system is damaged it is more likely to have a lingering effect there than it would, say, in the UK or the US.

Q22 Mr Brady: What are the implications for the sterling/euro exchange rate?
Dr Posen: I think the implication for sterling/euro—again forecast, all else equal (the classic economic phrase)—is stronger sterling versus euro after the immediate term. Nobody should pretend they can forecast exchange rate movements in the very short term—if they do, they are taking your money—but in the very immediate term there is a potential that slower action on monetary policy from the ECB than from the Bank of England will lead to an interest rate gap and that could temporarily push up the euro. But medium term—meaning the next couple of years—I would expect sterling to appreciate somewhat against euro.

Q23 Mr Brady: You said that the trend rate of growth in the US had already fallen before this crisis. Would that be true as well of the United Kingdom?
Dr Posen: As I state in my written questionnaire, the trend rate of growth in the United Kingdom is actually a bit genuinely puzzling. As I used to discuss with both British and American officials a few years ago, in my less full-time following of the UK, there was this puzzle that so many things seemed to be right in terms of policy and structural inputs but the measured outcomes in terms of productivity growth were not that high. To me, there is more uncertainty about the trend rate of growth in the UK going forward than I have about the US.

Q24 Mr Brady: Notably, one of your three main themes is to undertake an independent evaluation of the potential growth rate looking at those factors. Do you have a hunch, if you like, as to why that productivity growth did not take place in the UK? Where are you starting from?
Dr Posen: The hunch that I had and that a number of people shared was that, since there had been so much investment and employment in both the National Health Service and the financial sector and all economists are bad at measuring productivity growth in service industries, it was buried in there and we have to resolve how to disentangle that. I think that is still a factor, but that is clearly not sufficient. Beyond that, this is why I think it is a very serious issue which I need to approach. Let me be very clear. I appreciate you asking this because I think it is very important and I do not want to suggest that I am so uncertain that productivity growth could be anywhere from zero to five. That is not what I am saying. But a few tenths here or there, as you well understand, in trend growth matter a great deal, so trying to pin down where we think it is I think is an important activity.

Q25 John Thurso: In your questionnaire, the third point that you put about the three areas of primary concern in terms of research was relating to what you call the "three-dimensional exit strategy that all central banks and governments in the OECD, including critically the UK, must undertake . . ." Why did you stress the criticality of the UK?
Dr Posen: For two reasons. First, because the UK is what I am now concerned with and what you are all concerned with., and, secondly, because the UK is in this interesting position of always having to think about its relative position vis-à-vis the euro area and the US, you are big enough that you can determine your own destiny—I should not say "you" now but "we"—but small enough that these other countries matter a great deal. To give two examples: on the financial extrication side, as we saw last October with the race with the Irish and then the euro area about deposit insurance or as in the debate right now over hedge fund regulation, the relative regulatory state of the UK and its importance to financial service employment here matter a great deal. A second example relating to the question regarding the exchange rate is that relative competitiveness matters a great deal. There are currencies—the

dollar would be one—where I think it is driven a lot by domestic factors. In the UK, the sterling rate has a lot to do with a lot of external factors as well, and so if there is a sharp move in UK monetary policy when other monetary policies do not move, that will have some effect on the exchange rate. That does not mean that the Bank or the MPC should hesitate to do the right thing for the UK economy; it simply means that the cost-benefit analysis is a little more complicated.

Q26 John Thurso: You mentioned earlier the relationship between the point at which the fiscal stimulus needs to be withdrawn and the effect of credit crunch. I think you were saying that if you get that wrong, if the fiscal stimulus is withdrawn while there is still a credit crunch in operation, it will have a negative and severe impact. Could you expand on that within that point of the three dimensional exit strategy?
Dr Posen: Often spoken about for developing countries is the idea of policy sequencing. If you are with an IMF mission and you go into some Latin American or Eastern European country you speak a lot about, "First you do this with the budget and then you do this with the central banks and then you do this with the regulation." My research—and more importantly for this purpose, the policy implication, I hope—is thinking about that sequencing question for an advanced economy in this situation. In terms of sequencing, it is pretty clear in terms of fiscal versus credit crunch what the ideal would be, which is that you fix the banks before you run out of fiscal borrowing room, full stop, because at some point there will be a hard constraint on your borrowing. Again, I am by no means saying the UK is there yet, but at some point there is a hard constraint on your borrowing, and if you have not fixed the banks by the time you run into that constraint, you will end up possibly with a credit crunch, you will end up possibly with outright financial fragility or breakdowns, you will end up with lack of confidence in your economy, so it is a very serious matter. The problem is that you cannot indefinitely substitute government spending for private credit creation. I obviously recognise that. In fact the more directly you attempt to substitute government spending for private credit creation, usually the worse your results. You can spend government money on a lot of things: tax cuts, infrastructure expenditure, employment benefits adjustment—and we can go through the list—but when you start using government money directly for credit uses, it tends to be very inefficient. The complication is that you have this political and, I would argue, social imperative that throwing a lot of money into the banks is not necessarily what you want to do first, because there are people in pain—and arguably the people in the banks and certainly the shareholders in the banks benefited from the upside and deserve some responsibility—versus if you cannot fix the banks at some point, everybody in the economy suffers. Again you come back to this basic trade-off that in an ideal state you want to have the banks recapitalised and on a clean basis before you withdraw fiscal stimulus.

Q27 John Thurso: That leads me rather neatly on to asking you regarding the banking crisis. Huge public sector liabilities have been built up. What commitment would you like to see from the Government towards their reduction, looking at it from a Bank MPC standpoint?
Dr Posen: I think the biggest thing is that the Government so far and moving forward has to be taking on fiscal measures that are clearly temporary and reversible and not initiating what we call in the US new "entitlements" (new ongoing programmes without limits). That is the single biggest thing you can do. The second issue is to speak credibly about a medium-term plan. With no disrespect intended to anyone of any party, I do not think it is entirely credible right now to start talking about what your fiscal consolidation plans would be, both for the obvious reasons of political timing but, also, simply, circumstances will change. When the economy has bottomed and when the political situation is clear, I think the first priority has to be stating, "These are the broad contours of tax and spending we will undertake over the next few years and this is a path that gets us down to cyclically adjusted deficits that are much smaller than what we currently have." It is possible, if I am called upon, for me to give more specific advice than that, but, to be honest, I firmly believe that it is not the MPC's role or the Bank's role to be getting into much more specific than that about fiscal policy. I think the broad contours of what is a sustainable level of debt and when, contingent on the forecast, it is reasonable to start talking about consolidation are places where I personally or the MPC can make a contribution but I think the specific structure of tax and spend policy is not something where I personally should be involved.

Q28 Ms Keeble: You must have seen the debate on the macroprudential tools and who should use them. What is your position on what any new macroprudential tool might be?
Dr Posen: Ms Keeble, I am not always in agreement with Governor King but I think Governor King had it right in his recent Mansion House speech that right now we do not have an instrument. When I say "we" I mean the policy class in general. There is not an instrument that goes directly after macroprudential matters. Currently it is very discretionary and very financial institution specific. One needs something that will be more rules-based and more macrosystemic, in a way.

Q29 Ms Keeble: I can understand that you might not want to stray into an area which the Government has spoken about—
Dr Posen: No, that is okay.

Q30 Ms Keeble: —but people have posited, for example, looking again at capital ratios, loan-to-value ratios, and a complex package that would measure the possible systemic risk of banks as well. You must have views on this.
Dr Posen: Yes, I apologise for not being sufficiently pointed. I was about to get to that. I apologise for being long-winded. It is perfectly legitimate, obviously, for you to ask for my opinion on that and I will give it to you. I think we have seen that the Basel rules on capital were insufficiently stringent and too complicated in trying to adjudicate between different types of assets, and one needs a simpler, much less flexible rule with higher capital standards. One needs a liquidity rule of some sort as well as a capital rule. I am very similar on this point of view to what Paul Volcker wrote in his G30 report, as well as people like Joe Stiglitz have written and others have written. I am very comfortable with that. A surprisingly large amount is being done at the BIS, FSB (this Financial Stability Board to come out of the G20 level), and what has just been reported out of that process and out of the BIS I actually think is a very good basis on some of these issues. This goes back, also, to the 3-D question. A lot of this, if it can be agreed at international level, would be better, because then you are not putting any one country's financial system at a disadvantage and not having a lot of capital sloshing around from place to place not on the basis of micro-incentives but on the basis of trying to arbitrage regulatory differences. I would be very strongly in favour of that. We can get into the specific construction of loan-to-value ratios, but I think it is: the simpler the better, the stricter the better, higher numbers than we currently have for capital and for liquidity. The other point which was in your initial question is my understanding of where do you put it, what kind of institution?

Q31 Ms Keeble: I was going to come on to that.
Dr Posen: Okay. I am sorry to leap ahead.

Q32 Ms Keeble: Perhaps I could come back to you on the loan-to-value ratio, because you did mention in response to an earlier question, I think it was Mr Brady's, about the particular issue in the UK of the risk of the property market, asset prices. Do you think that loan-to-value ratios would have a particular relevance in the UK because of the risk to financial stability here of asset price bubbles or not?
Dr Posen: To be honest, I do not see anything that makes the UK particularly vulnerable to asset price bubbles one way or the other. This is one of the things that makes me more in favour of broad, strict rules rather than trying to tweak very carefully the rules. If you look across the countries that had asset price bubbles in recent years—the US, the UK, Spain, Greece, Hungary; prior to that Japan, Sweden, Finland—there is an enormous variety of regulatory frameworks in who runs the regulators in those countries and not one of them seem to be a general proof against asset price bubbles.

Q33 Ms Keeble: In your questionnaire you think there might be some value in looking at accepting a slightly higher inflation rate. You say that the risk of undershooting, you think, is more than overshooting by and large, and you also say that there are some risks around the 2% figure. Do you think that the 2% target should be revisited, particularly if, as the economy starts to improve, a sudden dampening could stifle a recovery?
Dr Posen: I appreciate you bringing this up because it allows me to be very clear about something. The Bank of England MPC has a remit set by Parliament to achieve a 2% target. I am signing on to the MPC to abide by that. I am in no sense going into the Committee—and I know this is not what you were saying, Ms Keeble, but I just want to be very clear –with an intent on changing that target, debating that target, voting as though I do not want to make that target. When I signed on for this job, it is agreement to meet the MPC's target.

Q34 Ms Keeble: I understand.
Dr Posen: I know, but I have to say that for the record.

Q35 Ms Keeble: Sure. I understand that you sign on for the rules, but you must also have some views as to whether at some stage the rules might have to be revisited—which obviously is not your job, it is someone else's job.
Dr Posen: No, that is your job.

Q36 Ms Keeble: Exactly. I was not going to say that.
Dr Posen: Let me put it this way, in two points. First, in the book I did with Bernanke, Mishkin and Laubach where we studied a number of inflation targeting regimes, including that of the UK, we envisioned a system where you were not resetting the inflation target very frequently but where the elected officials would be in a position to re-evaluate the inflation target at intervals. In principle, as a member of the MPC, I think it is fully reasonable for the Committee to take that on. In terms of the specific situation, I do not see the 2% inflation target, in any foreseeable near-term sense, being a constraint on growth. We should be so lucky as to get on to that.

Q37 Ms Keeble: Okay. You are on record as having criticised the Government's arrangements for financial stability in central banks in the US. How would you rate our system? How do you think it compares to that of the US?
Dr Posen: Obviously Northern Rock was not a shining moment for anyone in this system. You have Professor Wood there who I think did an excellent report on that situation. And so there obviously were failures here.

Q38 Ms Keeble: Do you think that Northern Rock was a case of the wrong policies or the wrong structures for dealing with it?
Dr Posen: No, I think it was just a genuine one-time mistake.

Q39 Ms Keeble: It was an all round mistake.
Dr Posen: I think it was just a genuine, "They've screwed up." I do not view it as a systemic indictment. In the end, as long as you have individuals in charge, there are going to be mistakes. I am sure I will make my share, and, God willing, other members of the Committee will offset my mistakes. I think, overall, the emphasis in the UK system . . . I am not sure what the right word is . . . that things were done in a more clear, instructive fashion (rather than nitty-gritty regulations, in the way it is done in the US) was wise. I think revisiting the issue of having banks that are too big to fail is entirely relevant for the UK and is worthy of some real scrutiny.

Q40 Ms Keeble: You were going to touch on the debate about structures at the beginning. Could you now say what your views are on that?
Dr Posen: This is a place where I fear I may not give you the answer you want. I view, in some sense, a lot of the structural stuff as a sideshow. In the end it is important but what is more important is the content of the rules, and there is this tendency to always get into, "Oh, was it FSA or Bank of England? Was it in the US SEC or CFTC or FDIC or Fed?" I think in the end that is not the core issue. The core issue is that everybody was on board with allowing banks way too much of self-regulation. Everybody was on board with not requiring sufficient minimum capital and liquidity. It was not the regulatory arbitrage of multiple regulators that was the problem.

Q41 Ms Keeble: You think it is more important to find out the tools that will deal with the issue rather than to find and then do the structures.
Dr Posen: Yes.
Chairman: A brief answer and then we will move on.
Ms Keeble: He said yes.
Chairman: That was very brief.

Q42 Nick Ainger: In your responses to the questionnaire, the final question was: What do you regard as the causes of the current economic crisis?" and I will quote this short bit of your quite long and detailed reply: "First and foremost, central banks and financial regulators fell subject to an ideology of excessive faith in financial market actors. Policymakers around the world decided that financial firms could largely be left to self-regulate, that financial innovation was very, very valuable, and you didn't want to kill the golden goose with too heavy a precautionary hand, and that the ability of regulators and bank supervisors to do anything about the decisions of financial firms was extremely limited and likely to backfire." You go on: "my profession of economists largely bought into [this view] (with a few brave exceptions)." Were you one of the brave exceptions?
Dr Posen: I was an exception but I was not particularly brave. I should have been out there beating the drum more than I was—not that I think my opinion would have mattered all that much. I think, Mr Ainger, this relates to my last response to Ms Keeble, which is that people get things wrong. We had a belief among economists for the most part that financial innovation was very good, almost inevitable, hard to resist and was going to lead to self-regulation inherently. This is exemplified by former FED Chairman Greenspan's recanting testimony, of which you are probably aware, before the Congress a few months back, in which he said, "I never imagined these companies could put their reputation at such risk, but they did." Roughly, that is what he said. I was better than most at imagining such things could happen and I was always more sceptical than most about how particularly wonderful the "financial innovations" (as they were called, all of them) might be, but I do not want to claim any particular credit. The people who were out there really beating the drum were Paul Volcker; Paul Krugman; Joe Stiglitz; Raghuram Rajan, the former chief economist of the IMF who is at University of Chicago. These people, for all their deserved praise and prestige, were in various ways shut out of the profession on these issues because of their stance.

Q43 Nick Ainger: Charles Goodhart is one of your referees. I note he is the only British referee that you have out of your nine referees, but that is by the by. He told us that it would take a brave person, in the middle of the swinging party, to take away the punchbowl.
Dr Posen: Right.

Q44 Nick Ainger: Do you think you have that capability, that when things are going well you can put the precautionary hand up?
Dr Posen: Yes, and I can give you some examples from my past that I would hope would bear that out. But that said, I have never been in a position of as great responsibility as this one, and so I cannot point to and say "I did *x* in the past that would be comparable," but I would hope I would. I was very forthright—even if not brave enough—on the financial innovation, to be out there opposing, at some personal professional cost, a lot of the Clinton administration's efforts to transport and export various sorts of financial liberalisation abroad too aggressively. I was out there in the US and Germany, talking about the decline in trend output growth and, therefore, that one should not take too seriously the recovery, meaning "taking it as sustainable" over recent years. So I do have some record of going out there and saying un-fun things even when they are unpopular, but all I can do beyond that is give you my commitment that I view that as part of the job and I intend to do it.

Q45 Nick Ainger: The second cause you give for the financial crisis was that a number of economies were growing more quickly than was sustainable, given their domestic savings, and more obviously their asset prices were growing more quickly than commensurate with future growth rates of the economy. Given those circumstances, your analysis, do you think central banks should use interest rates to lean against the wind, against the conventional wisdom, to prevent asset price bubbles?

Dr Posen: I do not. And it is not because central banks should not do something about them; it is because—it goes back to Ms Keeble's point—I think you need macroprudential instruments. The reason I am opposed to interest rate action is not because it is not part of the central banks' remit to stabilise things and it is not because I think asset price bubbles do not exist—that I am fine with—but I just do not believe the interest rate instrument works. If I look across countries over time—even countries that attempted to do that: Japan in the late 1980s/early 1990s, Australia in 2003–04—various countries have attempted to pop asset price bubbles with interest rates and, basically, it has not worked. It is a basic rule of economic policy that you try to go after a problem as directly as possible. If you believe there is an asset price problem which is based on leverage, then the way you go after it is you increase your leverage and reserve requirements for banks and people. If you believe there is an asset price problem that is occurring because people have unrealistic expectations about economic growth going forward, you use the inflation report and you are fully public to tell people, "This is unreasonable. The trend growth rate of the UK is not above *x*. You do the maths: you cannot have profits growing at 50% a year if the trend growth rate is *x*." It seems to me as though it is entirely reasonable to put the burden on the central bank as part of the process for constraining those, but I do not believe interest rate policy is the way to do it.

Q46 Mr Fallon: Dr Posen, you studied deflation in Japan. How should we weigh up the risks here?
Dr Posen: The risks right now, clearly, are more about deflation than inflation in the short term. In line with perhaps my little too flip answer to Ms Keeble, in the sense that that is why I said I am more worried about undershooting than overshooting, I also think that, while the 2% target is right, if you overshoot the 2% target a little bit one month here, one month there, you do not necessarily get an inflationary/hyperinflationary cycle. In fact, the Bank of England has successfully seen that. That is the point of the inflation targeting regime, that you anchor the expectations so that small short-term things do not matter. Japan has demonstrated that once you fall into a really deflationary situation, it is very hard to get out. That is what I tried to suggest in my written remarks. I apologise if they were not clear, but it is just that it is very sticky once you get in there. Even if you have above-trend growth, which Japan had arguably for four years in a row in the early part of this decade, they only came out of deflation at the very end of that period. I take the risk very seriously. That said, I think the combination of the interest rate cuts and the QE that is underway right now, combined with fiscal stimulus, is the right way to face that.

Q47 Mr Fallon: You suggest that the real benefit of measures like quantitative easing in fact is to calm markets rather than to stimulate the economy. Is that why you think the Bank has paused here?
Dr Posen: If I came across as suggesting that, then I miswrote or misspoke, because that was not my suggestion.

Q48 Mr Fallon: You say here, "The overall macro benefit of such measures however is more to prevent market disruptions than to positively stimulate the economy."
Dr Posen: Yes.

Q49 Mr Fallon: That is in answer to question 10.
Dr Posen: You are absolutely right. I meant in terms of size of the effect. The biggest impact quantitative easing has on the economy is going to be through reducing tensions in financial markets. I apologise. I must have misunderstood your phrasing. Mr Fallon, you are absolutely right. The point is that if you have QE, its main object is to reduce some of these interbank spreads and to provide liquidity to the banking system and the economy more as a whole, and then eventually that transmits into growth in real things. But it is not some sort of mechanistic monetarism where, if we inject liquidity of a certain amount, we are automatically going to get this much inflation or growth.

Q50 Mr Fallon: To come back to my question, do you think that is now why the Bank has paused, that it is beginning to realise that?
Dr Posen: To be speaking for the outside, not having attended an MPC committee meeting, I think much too much is being made of the so-called pause. The Bank is still engaged in quantitative easing. The Bank has not withdrawn quantitative easing. The Bank has not foreclosed future quantitative easing. They are simply trying to calibrate what is the right number, in a circumstance where, as I tried to indicate in my written work, it is very hard to get what the right number is. And so, if at one monthly meeting they do not tweak the particular number while they are waiting to see what happens as a result of it, it does not strike me as a terribly significant message one way or the other. I realise there have been a lot of press reports and market commentary indicating people are interpreting that, and I think that is part of the reason why it is useful to have Deputy Governor Bean out there trying to explain things, because there is obviously a lot of confusion. When I first interviewed for the MPC job with the panel at the Treasury, I did express my concerns that it is going to be difficult to explain QE. I am not making light in any way of your question, Mr Fallon, but I just do not accept that this was a terribly significant decision on the Bank's part or indicative of any broader pattern.

Q51 Mr Fallon: Could we turn further ahead, then, to the quantitative tightening that is going to be needed eventually: the QT. How do you see that working alongside an already very large programme of gilt sales to finance the deficit? How is all this paper going to get back into the market?
Dr Posen: Assuming that the economy, even if on a bumpy path, is on a recovery path, the way it gets back into the market is over time interest rates go up

a little bit. There is this tendency sometimes to exaggerate the practical aspects of negative quantitative easing or quantitative tightening, as you put it—QT or however you want to put. Once you are out of the worst of the economic situation, you move into a normal situation. In a normal situation, if you have a large supply of Government bonds, the price of those Government bonds falls. I do not mean to seem academic about it. If you look back in history, this is what happens. With withdrawal of quantitative easing, the tough part is deciding the timing. The tough part is making the forecast and making the call when to do it. The process of withdrawal is not all that complicated, to my mind, based on the historic record in other countries.

Q52 Mr Fallon: It is not going to be complicated by the sheer size of the gilt sale programmes. That is what I am asking you.
Dr Posen: I understand that. I apologise if I am seeming too simple-minded. The sheer size of the gilt programmes means that it is good that there is somebody from the Treasury at MPC meetings and there is an exchange of information so people are aware of the flows, but it does not in any way change the nature of the process fundamentally. It just means there is something there putting downward pressure on bond prices—which is reality.

Q53 Mr Fallon: When do you think we will be into quantitative tightening?
Dr Posen: That I am not prepared to answer. I simply believe that that is going to be a very tough call, and I have to be part of the ongoing discussions with the MPC and the people in this city and the people in this country, and talk with people and read the data and watch developments and then make the call. I think I would be not serving the Committee well by giving you a number or a forecast at this moment.

Q54 Mr Fallon: When would you hope to be?
Dr Posen: I would hope to be doing it immediately, because that will mean the crisis is over, but there is no chance in hell that that will happen.

Q55 Chairman: Dr Posen, thank you for your attendance this morning and for, as I mentioned early, your very full questionnaire and your expansive answers to us. You have been very helpful to us. You follow Professor Danny Blanchflower in coming from the United States. His experience helped the Monetary Policy Committee and I am sure yours will do that as well. We wish you well with your new appointment and look forward to seeing you occasionally at this Committee.
Dr Posen: Thank you very much, Chairman, and Members of the Committee. I appreciate your patience with my longwinded replies to questions, written and oral, and I look forward to working with you if I have the opportunity.

Written evidence

Treasury Committee Questionnaire: Response from Dr Adam Posen

A. Personal and Professional Background

1. *Do you have any business or financial connections or other commitments which might give rise to a conflict of interest in carrying out your duties as a member of the MPC?*

No. I will continue my paid affiliation with the non-profit, non-partisan Peterson Institute for International Economics in the part-time when I am not at the Bank (see reply to Question 7 for details). I will continue my membership in various non-profit professional organisations, including Board membership at Bruegel (a similar research institute in Brussels) and as an adviser to the US Congressional Budget Office, both of which require fewer than four meetings a year. There is no conflict of these limited and research-oriented commitments with fulfilment of my duties as a member of the MPC.

2. *Do you intend to serve out the full term for which you have been appointed?*

Yes.

3. *Please explain how your experience to date has equipped you to fulfil your responsibilities as a member of the MPC? In particular, what areas of the MPC's work do you believe you will make a particular contribution to, and which will you have to undertake additional research into upon your arrival?*

For 17 years, I have been conducting applied macroeconomic research, with my areas of expertise being monetary policy and central banking issues, fiscal stabilisation policy, response to financial crises in advanced economies—including the critical case of Japan in the 1990s—and business cycle forecasting in advanced economies. For most of that period, 1997-present, I have been a senior fellow at the Peterson Institute for International Economics (PIIE), which is widely recognised as the leading think tank in the world on these and other international economic issues. During that time, I have published as author and/or editor five widely-cited and influential books, and more than 30 also widely-cited articles, on such topics as the impact of inflation targeting, macroeconomic stabilisation and the trade-off with long-term debt accumulation, the sources and effects of central bank independence, the causes of Japan's lost decade of economic growth, how to resolve banking crises, and the relative status of the dollar and euro as reserve currencies—all highly relevant topics for the MPC's work. I have also been part of teams forecasting growth and inflation in the G7 economies, including the UK, but primarily Germany, Japan, and the US, for most of the time since 1994.

I have also worked directly inside and with central banks, initially as an economist at the Federal Reserve Bank of New York from 1994–97, where I advised the Bank's President and top management on the G8 economic forecast, the costs of disinflation, and the widespread adoption of inflation targeting. While there, I conducted foundational research on the inflation targeting monetary framework as implemented in the United Kingdom and elsewhere, jointly with now Federal Reserve Chairman Ben Bernanke and former Federal Reserve Governor Frederic Mishkin. I spent the first seven months of 2006 as a Houblon-Norman Senior Fellow at the Bank of England, housed in the structural analysis division, and contributed to the research and forecasting of the Bank, particularly on the international side and on the understanding of the low inflation environment. I also completed research on the anchoring of inflation expectations and wage pass-through, comparing across a range of advanced economies.

I have consulted for central banks and other economic policymakers on a part-time basis regularly between 1997 and the present. Engagements with central banks have included advising the European Central Bank on their response to euroisation (the unilateral adoption of the euro) in eastern Europe, the Federal Reserve Board on lessons from Japan's lost decade for monetary and financial policy, the Deutsche Bundesbank on how differences in banking systems affect monetary policy transmission, and the Reserve Bank of Australia on the proper response of monetary policy to asset price bubbles. I have also advised the UK Cabinet Office in the run-up to this year's London G20 summit, the US Treasury and Council of Economic Advisers (under both Clinton and Bush) on the crisis in Japan and how to encourage reform there, the IMF recurrently on fiscal policy responses to crises and on banking system problems in Europe, the US, and Japan, and a range of short-term projects for other governments on the structure of monetary policymaking. I was recently re-appointed to a second two-year term as a member of the Panel of Advisers to the Congressional Budget Office, where I engage with the CBO Director and professional staff on the interaction between short-term policies and longer-term fiscal balance, inflation, and growth potential.

I hope to contribute to the work of the MPC as a good working colleague and independent voice, in the full spirit of the External Member role. In terms of special expertise that I bring, there are three areas. First, I hope that my extensive knowledge of the Japanese crisis of the 1990s, as well as of the US Savings and Loan crisis of the 1980s and of the Swedish banking crisis of the early 1990s will assist in avoiding many of the policy mistakes made in situations with some similarities to today's environment (which to the Bank's credit have been avoided so far). Second, I hope that my ongoing empirical research and critical re-evaluation of inflation targeting as it has evolved and proven out in various countries, including the UK, will contribute to any discussions of how to adapt the Bank's regime and practices during the three years of my appointment. Third, I believe my deep knowledge of the US, Euro Area, and Japanese economies will enhance and improve the MPC's understanding of the global context in which UK monetary policy operates, and how developments abroad may affect the UK economy.

There are three areas of primary concern for me in terms of my research, which I intend to pursue upon my arrival at the Bank:

— First, I will undertake an independent evaluation of the potential growth rate in the UK going forward after the crisis. It was a troubling puzzle for many economists, myself included, why the UK did not show greater productivity growth during the NICE years and financial boom of the preceding decade, and understanding the sources of that shortfall will importantly inform the MPC about the prospects for sustainable growth of the UK economy going forward. My prior cross-national work on the determinants of potential growth and the impact of financial crises on that trend will inform this research (I will also make sure that I am fully up to speed on current developments in the UK economy—please see my detailed response to question 11 below).

— Second, I am re-examining very closely the early years of Japan's lost decade in strict comparison with developments in the UK, US, and Germany over the last two years. In particular, I am focusing on the impact of unconventional monetary policy measures, the long-term interest rate response to fiscal stimulus, and the inflation expectations response to both. I am working on this project jointly with the noted macro-econometrician Kenneth Kuttner, and am committed to producing a paper with our initial results for the upcoming issue of the Oxford Review of Economic Policy.

— Third, I will begin research on the three-dimensional exit strategy that all central banks and governments in the OECD, including critically the UK, must undertake from their emergency policy measures when the crisis is past. I say "three-dimensional" because exit will require the removal of monetary ease and liquidity, the reversal of fiscal stimulus and deficits, and the withdrawal of guarantees for, and some public ownership of, the financial sector. The timing of each on its own terms, with what practical indicators policymakers should watch, is of vital importance, as is the sequencing of the exit in each of the three areas when they will interact. Also important is the international coordination of efforts, or at least prevention of destabilising competition, in the financial sector exit and to a lesser degree the exchange rate impact of monetary policy. Fiscal policy remains a national matter in impact as well as governance, though there are also some empirical issues regarding the sizable issuance of public debt by several states simultaneously.

4. *Which of your publications or papers are of most relevance to your future work on the MPC?*

On inflation targeting in practice:

"The Future of Inflation Targeting," *Challenge*, 51(4), July–August 2008, pp 5–22.

"Six Practical Views of Central Bank Transparency," in Paul Mizen, ed, *Central Banking, Monetary Theory and Practice: Essays in Honour of Charles Goodhart*, Vol 1, Edward Elgar, 2003, pp 153–172.

Inflation Targeting: Lessons from the International Experience, with Ben Bernanke, Frederic Mishkin, and Thomas Laubach, Princeton University Press, 1999.

"Disciplined Discretion: Monetary Targeting in Germany and Switzerland," with Thomas Laubach, *Princeton Essays in International Finance*, No 206, December 1997.

On lessons from Japan's lost decade:

"Frog in a Pot: Germany's Descent into the Japan Syndrome," *The National Interest*, Spring 2003, pp 105–118 (longer version with data analysis, "Is Germany Turning Japanese?," IIE Working Paper No 03–5).

"Fiscal Policy Effectiveness in Japan," with Kenneth Kuttner, *Journal of the Japanese and International Economies*, December 2002, pp 536–558.

"The Great Recession: Lessons for Macroeconomic Policymakers from Japan," with Kenneth Kuttner, *Brookings Papers on Economic Activity*, 2001:2, pp 93–185.

"The Political Economy of Deflationary Monetary Policy," in Ryoichi Mikitani and Adam S Posen, eds, *Japan's Financial Crisis and its Parallels with U.S. Experience*, IIE, 2000, pp 1–26.

Restoring Japan's Economic Growth, IIE, 1998.

On resolution of financial crises and dealing with bubbles:

"A Proven Framework to End the US Banking Crisis Including Some Temporary Nationalizations," Testimony Before the Joint Economic Committee of the US Congress, Hearing on "Restoring the Economy: Strategies for Short-term and Long-term Change," 26 February 2009.

"Why Central Banks Should Not Burst Bubbles," *International Finance*, Winter 2006.

"It Takes More Than a Bubble to Become Japan," in Anthony Richards, ed, *Asset Prices and Monetary Policy*, Reserve Bank of Australia, 2003, pp 203–249.

Japan's Financial Crisis and Its Parallels to U.S. Experience, co-editor with Ryoichi Mikitani and contributing author, IIE, 2000.

On assessing potential output growth during times of change:

"Has EMU had any impact on the degree of wage restraint?", with Daniel Popov Gould, in David Cobham, ed, *The Travails of the Eurozone, Palgrave, 2007.*

"The Difficulty of Discerning What's Too Tight: Taylor Rules and Japanese Monetary Policy," with Kenneth Kuttner, *North American Journal of Economics and Finance*, March 2004, pp 53–74.

"Unchanging Innovation and Changing National Economic Performance in Japan," in Richard Nelson, Benn Steil, and David Victor, eds, *Technological Innovation and Economic Performance*, Princeton University Press, 2002, pp 74–111.

"Recognizing Japan's Rising Potential Growth," *NIRA Review*, Winter 2001, 8(1), pp 48–53.

B. Accountability

5. *If you were to make yourself available for reappointment to the MPC at the end of your term, what criteria should be used to assess your individual record as an MPC member?*

The primary contribution an External Member of the MPC can make to Bank of England policymaking is to promote better decisions by the MPC, both by preventing mistakes through challenges to received wisdom and by raising issues or perspectives that are new and useful (not different just for the sake of being different). Successful policy decisions are those that keep inflation close to target over the set medium-term horizon, while ameliorating shorter-term economic shocks to employment and to financial stability. A second priority is to make those decisions and the reasoning for them more comprehensible and credible to markets and to the British public. For each of these potential contributions, the critical performance factor is the ability to be persuasive on the basis of sound reasoning and objective data analysis.

Thus, if I were to make myself available for reappointment to the MPC in three years' time, I would suggest the following criteria would be relevant to assess my performance:

— Has the MPC made broadly the right decisions on monetary policy and related issues, given the information available at the time of decision? If not, was I on record as raising questions and alternatives to some of what proved to be the less successful decisions?

— Did my contributions to MPC discussions based on my previously established areas of expertise—policy options in the aftermath of financial crises; knowledge of major economies whose developments have substantial effects on the British economy; the practice of inflation targeting and central bank transparency issues around the world—lead to approaches and interpretations by the MPC that would otherwise not have arisen?

— When I did express a significant policy or forecast view that was either new or contrary to the majority of MPC opinion, was I successful in persuading other MPC members to my position, or was I able to elicit better arguments from the other members of the committee (or Bank staff) that persuaded me to change my position?

— Were there applied research projects, either conducted by me in the External MPC unit or encouraged by me among the Bank staff, which led to better informed decisions?

— Was I in demand among the general public, the press, market participants, and other UK government officials and stakeholders as a source of credible explanations for Bank policy and of the UK economic situation? Was this demand based on my constructive and forthright communication, but not due to any tendency to "make news" just for the sake of making news or through undisciplined speaking?

— Have I contributed to the state of public discussion and understanding of economic policy issues in the UK more broadly?

6. *Do you believe there is merit in having an individual paragraph in the minutes of MPC decisions in which to explain your most recent vote?*

The transparency of MPC discussions, and the ability of individual members, including external members, to express their views in a timely manner, is one of the great virtues of the Bank of England's regime. It is also one of the great attractions of the position of External Member of the MPC. I do not see any urgency to change the current transparency measures regarding the minutes, which my research leads me to believe are the state of the art in central banking. But there is always room for improvement, and I will be in a better position to judge that upon having actually participated in at least a few monthly MPC meetings and one Inflation Report cycle.

In terms of this specific proposal regarding individual paragraphs to explain the most recent vote, there is a trade-off to consider. Making sure that every individual member is clear in their reasoning on the record, and thus accountable, is a worthwhile endeavour. Preventing members from hiding their views or their views being lost could be worthwhile as well, if there has been an issue of that recurring (but I am not aware of any such obscurity). On the other side, however, the more formalised and explicitly formatted the minutes, the less discussion will be free amongst MPC members—there will be a tendency at the margin for members to be more self-conscious about their statements, and in fact to write up or at least plan their remarks in advance. This to me could lead to less-than-optimal consideration of policy options and of the forecast, since the point of MPC meetings as I understand them should be to have engaged and open discussion. So my instinct would be against further specifying how the minutes should be structured, and I expect that members of this Committee will have no difficulty finding the reasoning for my votes. But, again, I will be open to reconsidering this and related issues upon having more experience.

C. Other Professional Activities

7. *What other professional activities do you expect to continue/ undertake in addition to your position on the MPC and how do you intend reconciling these activities with your position as a MPC member?*

My only ongoing employment outside of the Bank during my tenure on the MPC will be part-time work for the non-profit, non-partisan, Peterson Institute for International Economics [PIIE]. I will be a non-resident Senior Fellow, since I will be living in the UK for at least the duration of my MPC appointment. This is analogous to continuing an academic appointment, were I a professor. I will publish all my non-UK economy related writings and research with my PIIE affiliation, post them on the PIIE website, and where appropriate (say when I complete a monograph on the exit strategy) publish PIIE books. My affiliation with PIIE will be on a fixed part-time salary without benefits. There is no issue of reconciliation between this work and my activities as an MPC member.

I will also continue to write op-eds, newspaper columns, and magazine articles on economic issues. I will not comment directly on UK economic policy, let alone Bank decisions, in these writings. These are paid fixed-sum per article.

I will retain my membership of the Panel of Economic Advisers to the US Congressional Budget Office, and of the Board of Directors of the think tank Bruegel. These pay a nominal per diem and/or travel expenses for meetings. The CBO panel meets twice a year, and the Bruegel board four times, so the time commitment is small. These have no conflict to reconcile with my MPC duties, and in fact should assist me in better carrying out those duties by increasing my contacts with informed parties holding strong points of view and with new analyses.

8. *Outside of MPC meetings, what activities do you intend undertaking in order to add to the public's understanding of the role and decisions of the MPC?*

Communication with the general public by central banks is crucial. I have been a strong proponent of central banks committing to such efforts in my policy writing. I also believe in it strongly as a personal matter, having committed PIIE to outreach to the broader public during my tenure there as Deputy Director, and led by example, visiting a number of communities outside of the Boston-New York-Washington corridor for presentations and exchanges.

Thus, I intend to work actively with the Bank's Agents, the Bank's Press Office, and its other regional efforts, to be out around the United Kingdom for exchange of views with local people and answer questions. I also intend to engage in dialog with the public through my writing for the press, and to continue to give presentations of lectures and seminars, appear on public affairs panels, and the like, insofar as consistent with the time demands of my other MPC duties and the restrictions on appearances around MPC meetings.

D. Monetary and Economic Policy

9. *How might the system of control over monetary policy in the UK be improved? Is the framework of an explicit symmetrical inflation target the best within which to conduct policy? Has the MPC been given an appropriate inflation target?*

The accountability structure of the Bank of England, having instrument independence to set interest rates in pursuit of a publicly announced price stability goal defined—and subject to reset—by Parliament, with a formal reporting process and disclosure by the minutes as well as the various Reports, is to my mind the right one for monetary policy. There are significant issues regarding the governance of the Bank with respect to financial regulation and supervision, which affects monetary policy, and which is obviously under current discussion by this Parliament and British experts. The governance of central banks' activities in financial stability has proven challenging to any number of central banks, and I am on record criticising the Federal Reserve's failures on this account in recent years in particular (nor am I alone in offering that criticism).

It is important to recognise, though, that those failures on the financial stability side were not the result of inflation targeting or of central bank independence. The rise of the bubbles in the UK and elsewhere were driven by a combination of regulatory and supervisory failures with structural factors not entirely under UK policymakers' control. In fact, the continued anchoring of inflation expectations above zero under the current circumstances, without tipping either into deflation or being pressured upwards by temporary large public deficits, represents a triumph of the inflation targeting regime of the Bank of England. Both the direct economic outcomes of the current crisis would have been worse, and the ability to respond with macroeconomic stimulus would have been far more limited, had this system of control over UK monetary policy not been in place.

Regarding the explicit symmetrical structure of the target, there remains reason to think that undershooting a 2% inflation target has somewhat greater costs and risks to real economic output and employment than overshooting it by the same amount (Japan's deflation had bad consequences, but it must be noted was not as harmful as some of us, myself included, expected it to be). Along with the well-established upward measurement bias in inflation indices, this suggests greater activism in response to any sustained undershooting of the target. It seems as though the Bank is already on this path.

The key to any adjustments is to retain the target's ability to anchor inflation expectations, so any change to asymmetry must come as clearly justifiable on its own terms rather than as a stealth attempt to ease policy. The economic growth literature suggests that the costs of inflation only become significant once annual inflation gets up to the 8–10% level (so long as inflation is above zero). By the same token, there are no long-term growth advantages either to having 6% or even 4% inflation instead of 2%, and because the risks to the Bank's monetary policy credibility and thus of increased inflation volatility and higher long-term interest rates on UK government bonds are higher at higher levels of inflation, there is good reason why the Bank and other inflation targeting central banks mostly have targets of 2%. There are also good reasons of political economy and communication, as well as economic logic, to have the target be defined over broad headline inflation as opposed to core, as the Bank now does.

10. *What lessons can be learnt from the recent economic history of Japan about the situation currently faced by the UK?*

The first lesson is that Japan did not have to lose the decade of the 1990s the way it did. What the UK government and the Bank of England are now doing, in broad terms, is right. Policy activism to support the economy is the right response. I firmly believe that Japan would have recovered in 1995 had there not been bad fiscal and monetary policies and neglect of the banking system. I firmly believe Japan could have still recovered in 1998, had there not been neglect of the banking system and then premature tightening by the Bank of Japan with great uncertainty about future monetary policy. And, Japan did eventually recover in 2002 when the right policy measures were undertaken by the government and by the Bank of Japan. The bias towards macroeconomic policy activism, while it does have its costs, is the right one.

The second lesson is the question of spending money on stimulus versus spending money on recapitalising the banks. If you take a broader historical perspective, it is clear that hesitation to finally fix their banks is a key part of what kept Japan from doing the right thing throughout the 1990s. The Japanese government did put money into cleaning up the Jusen (failed mortgage lenders tied to the banks) to some degree after the bubble. The Japanese government did put money, during 1997 and 1998, into dealing with a few failed institutions. Yet, even Japan's bank recapitalisation plan of 1999 was a failure, as well, in the sense that it was too much of a giveaway to the banks with too little conditionality, even though it was well-intended. It was only after the measures taken by the Japanese government in 2002 with aggressive forced inspections and write-downs at the banks, that the market and IMF assessments of the bad loan situation matched the official government assessments. The UK seems to be well ahead of the US and most Euro Area governments in this area of providing banks capital and disclosing their real situation.

The third lesson I would take, something that was very actively demonstrated, repeatedly, in Japan, is that fiscal stimulus works, but only so far. If you engage in fiscal stimulus, you do get a multiplier greater than one. And even if you engage in wasteful fiscal stimulus—bridges in northern Hokkaido Island that get 10 cars a day, it still has a positive multiplier. Such spending may not be a good idea long-term and, all else being equal, you might want to do things that have longer term benefits—infrastructure investment, I think, has a good case here. Government spending or tax cuts do buy you growth in the short-run, and do prevent unemployment from rising more than it otherwise would. The idea is to smooth the growth during the downturn by borrowing against future income.

The key point, though, is that little if any fiscal spending or tax cuts generate sustainable growth without continued expenditure. And I mean that in two senses. First, as Japan demonstrated, you cannot move 13% of your workforce into construction in an advanced economy. It's not a good idea. Second, and more importantly, if you do not fix the banking system by the time your stimulus runs out, then private demand will not pick up when the stimulus runs out. That's what we saw in Japan in 1997, and that is what we saw in Japan in 1999–2000. So we have a clock ticking here in the UK as in the US and the Euro Area.

The fourth lesson concerns monetary policy and deflation. One of the striking facts to emerge is how inertial, how sticky, deflation was in Japan. Once deflation started, it went down to a negative-one percent roughly annualised rate, depending on which index you look at. But the bottom line was it never accelerated. Even when the economy stayed bad, it didn't start going to minus-2, minus-4—which a straightforward Phillips Curve model that has continued to predict pretty well on upside moves on inflation using output gap in Japan would have predicted.

This fact has a few implications. The first is that monetary policy did not remove deflation quickly in any easy way. Second, it meant that deflation though harmful was actually less destructive than some of us worried it might be. And third, we simply do not understand deflation very well. Whatever type of standard macro model one uses for analysis, you will find it difficult to generate this result.

In terms of monetary policy, I think these facts call for some degree of humility. The Bank of England is right to be engaged in quantitative easing to address our current problem. But I think we should stay away from very mechanistic monetarism that, "Oh, boy, they've printed a lot of money so at some point that has to turn into inflation." Or, "If we do this specific amount of quantitative easing, so it will lead to this result." Looking at Japan, it is clear that their quantitative easing measures had the right sign, in the sense of being stimulative, but did not have a predictable or even large short-term result, let alone cause high inflation.

Unconventional monetary policy measures that are largely directed towards alleviating concerns in specific markets have been very successful in freeing up those markets, whether by the Bank of Japan in the late 1990s, or by central banks today. The overall macro benefit of such measures however is more to prevent market disruptions than to positively stimulate the economy.

11. *Do you consider yourself to be fully up to speed on the UK economic situation, and if not, how do you intend to rectify this?*

I am not yet completely up on all aspects of the UK economic situation with the depth of detailed knowledge that I would like to have. I am rather familiar with the UK economic system, its long-term performance, and most aspects of the current situation, and in fact I have been following the UK economy professionally in my research and comparative policy analysis for two decades (since the time of my senior thesis on Thatcher's economic policies at Harvard College), so my knowledge gap should not be overstated. My direct experience as an economic forecaster and monetary policy advisor, and my time at the Bank in 2006, also leaves me well-qualified to hit the ground running as a member of the MPC. But the British public deserves to have MPC members with truly in depth knowledge of all aspects of the current economic situation, and who are familiar with the recent specific trends for all of the major data series, and I am not yet there.

I am committed to rectifying this deficiency. The steps I am taking include:

— Obviously, my starting place is to re-read all the MPC minutes, Inflation Reports, Governors' press conferences, and so on from the last several years. I have always read these in real-time, but I can profit from close re-reading. I will be following up on these with direct questions to the Bank's Deputy Governor Bean, Chief Economist Dale, and their staff—Charlie and Spencer have already offered every assistance in my studies.

— I am arranging to meet directly with most of the past External Members of the MPC since its creation (most of whom I already know), both to get their take on the current situation and on how best to contribute to the MPC from that position. Danny Blanchflower and Tim Besley both generously contacted me upon the announcement of my appointment, before I even got to reach them, and by meeting with each of them I will be getting quite differing views on the current forecast and situation to begin with.

— I am familiar with the main independent research institutions and university centres conducting research and making forecasts for the UK economy. Starting with the NIESR and Institute for Fiscal Studies, I will be asking for briefings from their teams, and getting to know their views and resources in more depth.

— I also am familiar with most of the City economists at the banks, investment houses, hedge funds, and advisory companies who work on the UK economic outlook and on fixed-income and monetary policy issues. I am in the process of setting up appointments with several of them, as well as reading their recent publications in these areas. I have also asked people I know who are active in the UK fixed income markets to suggest their contacts for meetings.

— I have numerous contacts with the excellent British civil servants of HM Treasury, the Department of Work and Pensions, the Cabinet Office, and other departments. I will also be arranging for briefings on their views, some of which they have already offered to me.

I am confident that this immersion and study, along with the benefits of the MPC meeting and associated briefings, will rapidly close the gaps in my knowledge of the UK economic situation. I successfully turned myself into one of the world's leading experts on first the German and then the Japanese economies, as well as on the economy of my home country, through undertaking similar study and networking programs. I have a very strong foundation of prior knowledge and of support both within and outside of the Bank on which to build.

12. *What do you regard as the causes of the current economic crisis?*

When considering the current crisis, we need to consider both whether there would have had to be some kind of financial-led contraction inevitably, and whether we had to have this particular crisis in its form and its severity. There is a long list of potential or plausible causes, running from the most specific and proximate to the broadest and longest term. So we can well imagine regarding this specific crisis, that if it was not for the nail of Lehman Brothers and AIG being mismanaged in September 2008, the shoe might not have fallen off, leading to the battle being lost. And surely the synchronised real estate booms of the UK, US, Spain, Ireland, and other places led to the specific pattern of losses in terms of regions and sectors that we have seen.

But I firmly do not believe that the whiplash of markets regarding bailouts last fall or even the real estate bust was the real cause of all our current problems. Six months before Lehman we had another investment bank go under named Bear Stearns, and everyone knew that Lehman was next. And of course the UK had its RBS, Northern Rock, and other specific financial failures prior to then, with less than optimal policy response in some of those cases as well. The financial market lock-up and near meltdown of September to December 2008 specifically could well be attributed to the creation of a panic at that time following Lehman and AIG. Yet, some form of crisis seems to have been baked in for the UK, as well as for the US and most of the advanced economies.

There were two factors leading to the underlying crisis, in my opinion. First and foremost, central banks and financial regulators fell subject to an ideology of excessive faith in financial market actors. Policymakers around the world decided that financial firms could largely be left to self-regulate, that financial innovation was very, very valuable, and you didn't want to kill the golden goose with too heavy a precautionary hand, and that the ability of regulators and bank supervisors to do anything about the decisions of financial firms was extremely limited and likely to backfire. The US government and Federal Reserve played a key role in promoting this view worldwide in the 1990s and 2000s, and my profession of economists largely bought into it as well (with a few brave exceptions). But obviously there were those in the UK policymaking circles who shared this view, with the active advocacy of interests from the City in support of it, as well as the academic pressures.

I think it was a genuine mistake. I think the Clinton era economic officials, now back in government under Obama, and people at the world's major central banks believed in this ideology and they were wrong. They believed in it not for selfish, stupid reasons; they believed it because they genuinely thought it was right and logical. And there certainly were opportunists and corrupt people who took advantage of this ideological view, and there were certainly people with much broader, much simpler laissez-faire political ideologies who found this very convenient. But at its core there was, for want of a better word, elite opinion, that this is the way the world worked and that to me was the key factor. Policymaking is complicated. Mistakes are costly. So does that mean that our current crisis was inevitable? To a large degree, yes some form of financial-led contraction was inevitable, since the lack of regulation led to instability, and only the crisis itself proved the failure of this dominant approach to financial supervision and regulation.

Second, I think a number of economies were growing more quickly than was sustainable, given their domestic savings, and more obviously their asset prices were growing more quickly than commensurate with future growth rates of the economy. Ultimately, real estate prices have to correspond to growth in income and population, and corporate equity prices have to correspond to growth in profits, and while specific assets can keep growing in value for idiosyncratic reasons, the national averages for real estate prices and for stock prices are limited by growth in the overall economy. The lack of visible overall inflation was one part of why this was allowed to happen but really only a small part. This was allowed to happen more because the ideological faith in financial innovation led to overestimates of what would be the sustainable rate of growth, based on excessive belief in the rationality of the asset pricing mechanisms.

Even more importantly, the sources of this unsustainable growth in asset prices were things that policy did not have the instruments to address in the absence of greater financial regulation. To whatever degree international capital flows driven by high savings in China and the oil exporting countries led to international imbalances, and they contributed to the situation as well, there was no instrument available to deal with that either (raising interest rates attracts more rather than less capital inflow). So the proposals at present to add instruments to policymakers' toolkits to deal with financial imbalances are I believe productive, and should be coupled with rules that would force policymakers to utilise those tools.

7 July 2009

Dr Adam Posen: Curriculum Vitae

CURRENT POSITION

Deputy Director and Senior Fellow, Peterson Institute for International Economics, *July 1997 to present. Promoted to Senior Fellow in December 1998, youngest in history of the Institute. Appointed Deputy Director in June 2007.*

— Areas of research include macroeconomic policy; the political economy of the European Union, Japan, and the United States; central banking issues; and economic relations among the major economies. Author or editor of five books and over three dozen scholarly articles, as well as numerous op-eds, policy briefs, and shorter articles.

— Manager of $10 million budget, press and public outreach, administration and finance for 50-member Institute staff and dedicated building. Chair of senior fellow recruitment, responsible for hiring five additions to permanent senior research staff. Fundraiser for Institute managing relationships with supporters (corporations and foundations). Secretary to the Institute's Board of Directors, Investment and Audit Committees.

— Global exposure as public speaker and media commentator (print, radio, and television); among the most quoted economists globally in the financial press and electronic media.

CURRENT/RECENT APPOINTMENTS

Member, Panel of Economic Advisers, US Congressional Budget Office, May 2007 to May 2011 (reappointed in April 2009 to a second two-year term).

Member, Board of Directors, Brussels European Global Economic Laboratory (BRUEGEL), March 2008 to present.

Consultant on G20 Preparations, UK Cabinet Office and Prime Minister's Office, November 2008 to March 2009.

Houblon-Norman Senior Fellow, Bank of England, January–July 2006.

Associate Editor and Columnist, *The International Economy* (quarterly), April 2003 to present; Column, "The Monetary Realist," January 2007 to present.

Co-founder, *International Finance*, refereed journal of macroeconomics and finance (Blackwell Publishers), US Associate Editor 1997–2003; Chair, Advisory Board, 2003 to present.

Research Associate, Center on the Japanese Economy and Business, Columbia University, January 2003 to present.

Fellow, CESifo Research Network, University of Munich (LMU), June 2004 to present.

Member, Council on Foreign Relations, June 2003 to present (Term Member, June 1998 to June 2003).

Member, American Council on Germany, 1993 to present.

Visiting scholar/consultant to central banks: Austrian National Bank, Bank of Canada, Bank of England, Central Bank of Ireland, Central Bank of the Republic of Turkey, Deutsche Bundesbank, European Central Bank, Federal Reserve Bank of New York, Federal Reserve Board, Reserve Bank of Australia.

Consultant to government agencies and to fixed-income investors: US Departments of State, Treasury, National Intelligence Council, and Council of Economic Advisers; European Commission DG ECFIN; IMF (Asian, European, and Monetary Departments); Japanese Cabinet Office and METI (Japan); UK Cabinet Office; as well as to global financial institutions and hedge funds.

EDUCATION

Ph.D., Political Economy and Government, Harvard University, 1997
Special Fields—Macroeconomics; International Economics; Comparative Political Economy.

A.B., Government (*magna cum laude*), Harvard College, 1988
Also completed course requirements for A.B. with honors in Economics.
Elected to *Phi Beta Kappa*, 1988; Dean's List, 1984–88; National Merit Scholar, 1984.

Grants and Awards

Bosch Fellow of the Year 2008, *Robert Bosch Foundation*, selected from 400 fellowship alumni for professional achievement and contributions to transatlantic relations.

Grant recipient (€200,000), *European Commission*, for conferences and edited volumes on transatlantic responses to the financial crisis and on the global role of the euro, 2008–09.

Grant recipient (€45,000), *European Commission*, for conference and edited volume on the global role of the euro, 2004–05.

Public Policy Fellow, *American Academy in Berlin*, May and September 2001.

Grant recipient ($200,000), *German Marshall Fund of the United States*, "Germany in the World Economy," January 2000 to June 2003.

Okun Memorial Doctoral Fellowship in Economic Studies, *The Brookings Institution*, 1993–94.

Silver Medal ($10,000 Award), *Amex Bank Review Prize Essay Competition*, 1993.

Fellowship for Future American Leaders, *Robert Bosch Foundation*, 1992–93 (Resident in Germany June 1992 to May 1993).

Graduate Fellowship, National Science Foundation, 1989–92.

Previous Professional Experience

Economist, Federal Reserve Bank of New York, International Research Function, *September 1994 to June 1997*. Briefed senior management and conducted long-term research on monetary policy and strategy. Responsible for German economic outlook and analysis. Part of teams covering G-7 economic developments and European monetary unification. Recruited economists and research assistants for Research Group.

Okun Memorial Research Fellow, Economic Studies Program, Brookings Institution, *September 1993 to August 1994*. Conducted research on central bank independence and on costs of disinflation. Completed doctoral dissertation. Gave invited lectures globally on central bank independence research.

Guest Economic Analyst, Deutsche Bank AG, Berlin Region Headquarters, Corporate Customers Department, *January to June 1993*. Temporarily oversaw Foreign Investors' Desk for *Treuhand* and greenfield investment in the new German *Länder*. Analyzed foreign investment, economic development, and bank lending in the new German states.

Guest Economist, Deutsche Bundesbank, *October to December 1992*. Rotated as observer through Credit, International, and Banking Departments. Interviewed (in German) Bundesbank Board members and senior staff, and private sector economists.

Resident Tutor and Teaching Fellow, Harvard University, *September 1989 to June 1992*. Taught own course on "The Political Economy of Macroeconomic Policy" to honors junior-year Economics majors. Head teaching fellow for Kennedy School of Government courses "The Business-Government Relationship in the United States" and "Political Ethics and Public Policy." Tutor at Lowell House with special responsibility for senior theses.

Research Assistant, U.S. Federal Reserve Board, International Finance, *January to June 1989*.

Research Assistant, Carnegie Endowment for International Peace, *June 1988 to January 1989*.

Conferences Organized and Task Force Service

Principal organizer/chair of international high-level conferences for Peterson Institute:

- "Comparing American and European Policy Responses to the Financial Crisis" (with Bruegel and Banca d'Italia, September 2009).
- "The Euro at 10: The Next Global Currency" (with Bruegel, October 2008).
- "Foreign Direct Investment and the Work of Monty Graham" (September 2007).
- "The Euro at 5: Ready for a Global Role?" (with EC DG ECFIN, March 2004).
- "Sources of and Policies for Growth in the OECD" (with OECD, April 2003).
- "Stabilizing the Economy" (with Council on Foreign Relations, July 2002).
- "The Future of Monetary Policy" (with IMF/World Bank, June 2000).

Princeton Project on National Security:

- Co-chair, Economics and National Security Working Group, January to September 2005.
- Member PPNS Steering Committee, January 2005 to May 2006.

Member of Atlantic Council Working Groups:

- The Transatlantic Economy, (November 2003 to October 2004).
- Transatlantic Leadership in the Global Economy (September 2006 to April 2007).

Member of Council on Foreign Relations Task Forces/Working Groups:

- — Co-Project Director, Task Force on US-Japan Economic Relations (April to November 2003). Transatlantic Relations Working Group (August 2002 to January 2003).
- — Technological Innovation and Economic Performance Working Group (November 1999 to January 2001).
- — Task Force on US-Japan Economic Relations (November 1999 to October 2000).

Publications

Books:

Germany and the Future of Capitalism: The Limits of Export-Led Growth for a Rich Country, Peterson Institute for International Economics, forthcoming.

The Euro at Ten: The Next Global Currency?, co-editor with Jean Pisani-Ferry and contributing author, Peterson Institute for International Economics, 2009.

The Euro at Five: Ready for a Global Role?, editor and contributing author, Institute for International Economics, 2005.

Japan's Financial Crisis and Its Parallels to U.S. Experience, co-editor with Ryoichi Mikitani and contributing author, Institute for International Economics, 2000 (Japanese translation published by Toyo Keizai, 2001).

Inflation Targeting: Lessons from the International Experience, with Ben Bernanke, Frederic Mishkin, and Thomas Laubach, Princeton University Press, 1999 (several editions and translations globally).

Restoring Japan's Economic Growth, Institute for International Economics, 1998 (Japanese translation published by Toyo Keizai, 1999).

Journal Articles and Conference Volume Contributions:

"Policy Response to Crisis: Japan then, the US now," with Kenneth Kuttner and Erika Wada, *Oxford Review of Economic Policy*, forthcoming.

"Geopolitical Limits to the Euro's Global Role," in The Euro at 10: The Next Global Currency?, Jean Pisani-Ferry and Adam Posen, Peterson Institute for International Economics, 2009.

"National Security Risks from Accumulation of Foreign Debt," in *The Long-Term International Economic Position of the United States*, Special Report 20, C. Fred Bergsten, ed, Peterson Institute for International Economics, 2009.

"Why the Euro Will Not Displace the Dollar," *International Finance*, 11(1): 75–100.

"*Exportweltmeister*—So What? Better Goals for German Foreign Economic Policy," *Aufschwung für Deutschland: Wirtschaftspolitische Vorschläge international renommierter Ökonomen (Prosperity for Germany: Economic policy proposals of internationally distinguished economists)*, Ronald Schettkat and Jochem Langkau, eds, Dietz, 2007. English edition, Routledge, forthcoming.

"Has EMU had any impact on the degree of wage restraint?", with Daniel Popov Gould, in David Cobham, ed, *The Travails of the Eurozone*, Palgrave, 2007.

"Why Central Banks Should Not Burst Bubbles," *International Finance*, Winter 2006.

"Deutschland—ein Beispiel für den Rest der Welt?," in Juergen Petermann, ed, *Sichere Energie im 21. Jahrhundert*, Hoffmann und Campe Verlag (Hamburg), 2006.

"Can Rubinomics Work in the Eurozone?," in Adam S Posen, ed, *The Euro at Five: Ready for a Global Role?*, Institute for International Economics, January 2005, pp 123–170.

"It Takes More Than a Bubble to Become Japan," in Anthony Richards, ed, *Asset Prices and Monetary Policy*, Reserve Bank of Australia (2003 annual conference volume), pp 203–249.

"The Difficulty of Discerning What's Too Tight: Taylor Rules and Japanese Monetary Policy," with Kenneth Kuttner, *North American Journal of Economics and Finance*, March 2004, pp 53–74.

"A Strategy to Prevent Future Crises: Safely Shrink the Banking Sector," in Edgardo Demaestri and Pietro Masci, eds, *Financial Crises in Japan and Latin America*, Inter-American Development Bank, 2003, pp 259–272.

"Frog in a Pot: Germany's Descent into the Japan Syndrome," *The National Interest*, Spring 2003, pp 105–118 (longer version with data analysis, "Is Germany Turning Japanese?," IIE Working Paper No03–5).

"Fiscal Policy Effectiveness in Japan," with Kenneth Kuttner, *Journal of the Japanese and International Economies*, December 2002, pp 536–558.

"Six Practical Views of Central Bank Transparency," in Paul Mizen, ed, *Central Banking, Monetary Theory and Practice: Essays in Honour of Charles Goodhart, Vol 1*, Edward Elgar, 2003, pp 153–172.

“Financial Change in U.S. and Japan: Convergence without Leverage—So far,” in Steven Vogel, ed, *The U.S.-Japan Relationship: The Next 50 Years*, Brookings Institution Press, 2002, pp 198–239.

“Unchanging Innovation and Changing National Economic Performance in Japan,” in Richard Nelson, Benn Steil, and David Victor, eds, *Technological Innovation and Economic Performance*, Princeton University Press, 2002, pp 74–111.

“Beyond Bipolar: A Three Dimensional Assessment of Monetary Frameworks,” with Kenneth Kuttner, *International Journal of Finance and Economics*, 6(4): October 2001, pp 369–388.

“The Great Recession: Lessons for Macroeconomic Policymakers from Japan,” with Kenneth Kuttner, *Brookings Papers on Economic Activity*, 2001:2, pp 93–185 (*reprinted in* Deflation, *Edward Elgar Critical Writings in Economics Series, 2005*).

“Have New Human Resource Management Practices Lowered the Sustainable Unemployment Rate?,” with Jessica Cohen and William Dickens, in Alan Krueger and Robert Solow, eds, *The Roaring Nineties*, Russell Sage Foundation, 2001, pp 219–255.

“Inflation, Monetary Transparency and G-3 Exchange Rate Volatility,” with Kenneth Kuttner, in M Balling, E Hennessy, and E Hochreiter, eds, *Adapting to Financial Globalisation*, Routledge, 2001, pp 229–258.

“Introduction: Financial Similarities and Monetary Differences,” in Ryoichi Mikitani and Adam S Posen, eds, *Japan’s Financial Crisis and its Parallels with U.S. Experience*, IIE, 2000, pp 1–26.

“The Political Economy of Deflationary Monetary Policy,” in Ryoichi Mikitani and Adam S Posen, eds, *Japan’s Financial Crisis and its Parallels with U.S. Experience*, IIE, 2000, pp 194–208.

“Lessons from the Bundesbank on the Occasion of its Early Retirement”, in Lavan Mahadeva and Gabriel Sterne, eds, *Monetary Policy Frameworks in a Global Context*, Routledge, 2000, pp 393–420.

“Corporate Governance and Employment,” in Sonja Lahnstein-Kandel and Michael Goering, eds, *Social Cohesion in the States of the Triad USA, Japan, Europe*, Nomos Verlagsgesellschaft (Baden-Baden), 2000, pp 360–363.

“Financial Fragility and the Risk of Crisis: The Case of Japan,” *Fletcher Forum*, 23(1): Winter/Spring 1999, pp 109–130.

“No Monetary Masquerades for the ECB,” in Ellen Meade, ed, *The European Central Bank—How Accountable? How Decentralized?*, American Institute for Contemporary German Studies, 1999, pp 39–50.

“Do Better Institutions Make Better Policy? A Review Essay,” *International Finance*, 1(1): October 1998, pp 173–205.

“Central Bank Independence and Disinflationary Credibility: A Missing Link?,” *Oxford Economic Papers*, 50(3): July 1998, pp 335–359.

“Disciplined Discretion: Monetary Targeting in Germany and Switzerland,” with Thomas Laubach, *Princeton Essays in International Finance*, No 206, December 1997.

“Does Relationship Banking Make Imperfect Sense?: Comments on The Changing Role of Banks and Corporate Governance in Germany,” in Stanley Black and Matthias Moersch, eds, *Competition and Convergence—The German and Anglo-American Models*, Kluwer, 1997, 35–40.

“Inflation Targeting: Lessons from Four Countries,” with Frederic Mishkin. *Federal Reserve Bank of New York Economic Policy Review* (special issue dedicated to this monograph), August 1997.

“Declarations Are Not Enough: Financial Sector Sources of Central Bank Independence,” in Ben S Bernanke and Julio J Rotemberg, eds, *NBER Macroeconomics Annual 1995*, MIT Press, 1995, pp 253–292.

“Less than a Universe of Difference: Evaluating the Reality of German Finance,” in A Bradley Shingleton, Marian J Gibbon, and Kathryn S Mack, eds, *Dimensions of German Reunification*, Westview Press, 1994, pp 43–56.

”Why Central Bank Independence Does Not Cause Low Inflation: There is no Institutional Fix for Politics,” in Richard O’Brien, ed, *Finance and the International Economy: 7*, Oxford University Press, 1993, pp 40–65 *(reprinted in* The Political Economy of Central Bank Independence, *Edward Elgar Critical Writings in Economics Series, 1997 and in shorter form in several other publications)*.

Research Work in Progress:

“Do Markets Care Who Chairs the Central Bank?,” with Kenneth Kuttner, *Journal of Money, Credit, and Banking*, revise and re-submit, May 2009.

“Euro-area Response to Eastern European Crises: Self-defeating Discipline,” paper.

“Central Bank Independence 20 Years On: Conservative, but causal?” paper with Kenneth Kuttner (presented at AEA Annual Meeting, 2009).

“The Next Generation of Monetary Policy,” manuscript, (portions presented as Flemming Lecture, Bank of England, 2006, and Edgeworth Lecture, Irish Central Bank, 2007).

"Japan and Germany: Differences in Capitalisms and in Prospects," paper (presented at NYU Center for Japan Business and Economic Studies and Columbia Japan Economic Seminar, 2007).

"Competitiveness, Adaptability, and Creative Destruction," paper with Douglas Dowson (presented at IMF European Department and IIIS-Dublin, 2007).

"Does Talk Matter After All?: Inflation Targeting and Central Bank Behavior," article with Kenneth Kuttner, revise and resubmit for the Economic Journal (presented at NBER Summer Institute 1999; version released as *Institute for International Economics Working Paper # 99–10).*

Policy Briefs:

IIE Policy Brief, "The euro at 10: A regional currency," (with Jean Pisani-Ferry) forthcoming *IIE Policy Brief,* "Germany Against, Japan For: Who is Right about Fiscal Stimulus and Why?," (with Marc Hinterschweiger) forthcoming.

IIE Policy Brief 09–5, "A Solution to Europe's Banking Problem," (with Nicolas Veron), June.

Brookings US-Europe Analysis 2009, "Global Economic Leadership After the Crisis," June.

IIE Policy Brief 06–1, "The United States Needs German Economic Leadership", January.

CESifo Forum 4/2005, "Much Ado About Little: The Fiscal Consequences of German Economic Unification," Winter.

Internationale Politik 8/2005, "Vier Fragen an den künftigen Kanzler," August.

Internationale Politik 3/2005, "Mehr Mut, Deutschland," March.

Internationale Politik 1/2005, "Auf der Kippe," January.

Brookings US-Europe Analysis 2004, "Fleeting Equality: The Relative Size of the U.S. and EU Economies to 2020," September.

IIE Policy Brief 04–6, "What Went Right in Japan," September.

CESifo Forum 4/2003, "Japan in Crisis: Did Monetary Laxity in Japan Cause the Bubble?," Winter.

IIE Policy Brief 02–5, "The Looming Japanese Crisis," May.

IIE Policy Brief 01–4, "Japan 2001: Decisive Action or Financial Panic," March.

CESifo Forum 3/2000, "There's No Point in Intervention to Support the Euro," Autumn.

IIE Policy Brief 99–9, "Nothing to Fear but Fear (of Inflation) Itself," November.

IIE Policy Brief 99-1, "Implementing Japanese Recovery," January.

Op-eds and other short newspaper/magazine articles:

Columnist for *The International Economy* (quarterly) and for Eurointelligence syndicate (monthly); invited contributor to *Financial Times*, *National Journal* and *Wall Street Journal* economists' blogs.

Also published in the *Asian Wall Street Journal*, *Barron's*, *Berliner Zeitung*, *Boersen Zeitung*, *Central Banking*, *Daily Beast*, *Diamond Weekly (Japan)*, *Economia Pura*, *Euromoney*, *Frankfurter Allgemeine Zeitung*, *Financial Times-Deutschland*, *Foreign Affairs*, *Handelsblatt*, *Japan Times*, *JoongAng Ilbo*, *Journal of Commerce*, *Milken Review*, *New York Times*, *Newsweek Japan*, *Nihon Keizai Shimbun*, *Nikkei Business*, *NIRA Quarterly Review*, *Ronso*, *Straits Times*, *Wall Street Journal*, *Wall Street Journal Europe*, *Washington Post*, *Die Welt* and *Die Zeit*, among other venues (most multiple times).

Refereeing (most multiple times):

American Economic Review; *B.E. Express Journals in Macroeconomics*; *Canadian Journal of Economics*; *CESifo Economic Papers*; *Contemporary Economic Policy*; *Economic Journal*; *Economics Letters*; *Economic Modeling*; *FRBNY Economic Policy Review*; *International Journal of Central Banking*; *IMF Staff Papers*; *Journal of Development Economics*; *Journal of Economic Literature*; *Journal of the Japanese and International Economies*; *Journal of International Economics*; *Journal of Money, Credit, and Banking*; *Journal of Macroeconomics*; *Journal of Political Economy*; *Oxford Economic Papers*; *Princeton Essays in International Finance*; *Review of Economics and Statistics*; *Scandinavian Journal of Economics*; *World Politics*; *Zeitschrift für Nationalökonomie*; American Academy in Berlin Fellowship Program; Blackwell Publishers; Brookings Institution Press; Cambridge University Press; European Central Bank Working Papers; Houblon-Norman-George Fund (Bank of England); Humboldt Foundation Transcoop Program; MIT Press; National Science Foundation; New York University Summer Grants Fund; Oxford University Press; Princeton University Press; School of Advanced International Studies (Johns Hopkins) Tenure Review; Social Science and Humanities Research Council (Canada); University of Virginia Tenure Review.

SEMINARS, LECTURES, PANELS AND CONFERENCE PRESENTATIONS GIVEN

Endowed or Named Lectures:

Edgeworth Lecture, *Irish Economic Association/Central Bank of Ireland*, "Challenges to Monetary Policy under Globalization," April 2007.

John Flemming Memorial Lecture, *Bank of England*, "The Future of Monetary Policy," June 2006.

Thornton D Hooper Lectures on American Strategy, Foreign Policy Research Institute 50th Anniversary, "An Economic Toolkit for National Security," May 2005.

Fourteenth ECB Legal Colloquium, *European Central Bank*, "Euroization," Frankfurt, March 2003.

METU/ERC Economics Conference Endowed Keynote Address, *Central Bank of Republic of Turkey*, "Fewer Banks, Fewer Crises," September 2002.

Frankfurter Volkswirtschaftliche Kolloquium Lecture, *Center for Financial Studies*, University of Frankfurt, "Why EMU is Irrelevant for the German Economy," June 1998.

Academic Conferences/Universities:

American Economics Association Annual Meeting, American Political Science Association Annual Meeting; American University (DC); Birkbeck; Bocconi (Milan); Carlton; Centre for Economic Policy Research; Claremont Graduate School; Columbia (Business School, Economics Department, and SIPA); Duke; European Union Studies Association; Free University Berlin; Georgetown University; Goethe (Frankfurt); Harvard (CFIA, Economics Department, and Kennedy School); Humboldt (Berlin); Irish Economic Association; Japan Economics Seminar; Johns Hopkins (Economics Department and SAIS); London Business School; Maryland; METU (Ankara); National Bureau for Economic Research (Monetary Economics and Japan Programs); New York University (Stern); Oxford (Nuffield); Russell Sage; Rutgers; Southern Methodist University (Law School and School of Public Affairs); Stanford; SUERF; Technische (Berlin); UCBerkeley; UCLA; University of Chicago (Graduate School of Business); University of North Carolina—Charlotte (Business School); University of South Florida (School of International Affairs); Wharton.

Central Banks/International Financial Institutions:

Austrian National Bank; Bank for International Settlements; Bank of Canada; Bank of England; Bank of Israel; Bank of Japan; Bank of Thailand; Brussels Economic Forum (EC DG ECFIN); Central Bank of Ireland; Central Bank of the Republic of Turkey; Deutsche Bundesbank; European Central Bank; European Commission—ECFIN Department; Federal Deposit Insurance Corporation; Federal Reserve Bank of Boston; Federal Reserve Bank of New York (Board of Directors and Research Department); Federal Reserve Bank of St Louis; Federal Reserve Board (Divisions of International Finance and of Monetary Affairs); Federal Reserve System Committee on International Economics; Federal Reserve System Committee on Macroeconomic Analysis; Inter-American Development Bank; International Finance Corporation; International Monetary Fund (Asia, Capital Markets, European, and Fiscal Departments); Joint Chiefs of Staff (US); National Intelligence Council (US); Swiss National Bank; UK Treasury; World Bank.

Research Institutes:

American Academy in Berlin; American Enterprise Institute; American Institute for Contemporary German Studies; Brookings Institution; Bruegel; Center for Strategic and International Studies; Center for Financial Studies (IfK-Frankfurt); CESifo (Munich); Chatham House; Council on Foreign Relations; Daiwa Institute of Research; Deutsche Stiftverband; DGAP; DIW (Berlin); Economic Policy Institute; Fujitsu Research Institute; German Historical Institute; German Marshall Fund; Heritage Foundation; HWWA (Hamburg); IfW (Cologne); Institute for Advanced Studies (IHS-Vienna); Institute for International Economics; Institute for International Economic Studies (Tokyo); Institute for International Integration Studies (Dublin); Institute for International Monetary Affairs (Tokyo); Japan Center for Economic Research; Japan Center for International Exchange; Jerome Levy Institute; Levin Institute for Global Studies; New America Foundation; Real Instituto Elcano (Madrid); Research Institute of METI; Stittung Wissenschaft und Politik (Berlin); Wissenschaftszentrum fuer Sozialforschung (Berlin); Wilton Park; Woodrow Wilson International Center for Scholars.

Financial, NGO, public sector, and other conferences:

American Council on Germany; American-German Business Council (DC Chapter); Amex Bank Review Global Forum; Atlantic Council; Bank Credit Analyst; Bertelsmann Foundation; Bosch Foundation; Barclays Capital; Chesapeake Economic Educators Association; Citigroup; Congressional Economic Leadership Institute; Congressional Study Group on Germany; Deutsche Bank; Deutsche Maschinenbau Gipfel; DRI-WEFA/Global Insight; Embassy of Germany; Embassy of Italy; Embassy of Japan;

Embassy of Luxembourg; Euromoney; European-American Business Forum; Foreign Correspondents Club of Japan; Friedrich Ebert Stiftung; Global Fixed-Income Institute; Goldman Sachs; Die Gruenen (Germany); Haus der Bayerische Wirtschaft; Heinrich Boell Foundation (Berlin and Washington); Hotel Okura Executive Luncheon; Intertrade Ireland; Japan Society (New York); JER Companies; Keidanren; Keizai Koho Centre (DC and Tokyo); Konrad Adenauer Stiftung; Mansfield Fellowship Program; MEDEF l'Universite d'ete; MIT World Economic Laboratory; National Association for Business Economics (Policy Conference and Annual Meeting); National Association of U.S.-Japan Societies; National Economists' Club; Nomura International (Annual Japan Seminar, Central Bankers Seminar); Nordea Investors' Conferences; Pacific 21; Sinclair House Debate (Quandt Foundation); Social Democratic Party of Germany (Transatlantic Relations Conference); Sonae Global Advisory Conference; Tokyo American Center; Tonbach Gespraechskreis (Trilateral Conference on Social Cohesion and Unemployment); Tampa Bay Council on Foreign Relations; Twenty-First Century Public Policy Institute; UBS; Unicredito (MIB, Covered Bond conferences); Urban Land Institute; US Embassy in Berlin; US-Japan Foundation; Warburg Pincus; Wirtschaftstag der CDU (Germany); World Affairs Councils (Charlotte, Houston, San Antonio, San Francisco).

References

Dr C Fred Bergsten, Director, Peterson Institute for International Economics.

Professor Benjamin Friedman, Harvard University.

Professor Charles Goodhart, London School of Economics.

Dr Laurence Meyer, Macroeconomic Advisers.

Professor Frederic Mishkin, Columbia Business School.

Professor Kiyohiko Nishimura, Deputy Governor, Bank of Japan.

Professor Hugh Patrick, Columbia Business School.

Dr Jean Pisani-Ferry, Director, Bruegel.

Professor Janet Yellen, President, Federal Reserve Bank of San Francisco.

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