Editor's Note

The articles in this issue of the *Cato Journal* stem from the Cato Institute's 36th Annual Monetary Conference—**Monetary Policy 10 Years after the Crisis**—which was held in Washington on November 15, 2018. Leading scholars and policymakers discussed changes in the Fed's operating framework, the impact of Fed policy on interest rates and asset prices, the lessons learned from unconventional monetary policy, and the case for a rules-based monetary regime.

The Fed's new operating system became fully operational in 2015. Under the new system, the Fed uses interest on excess reserves (IOER) and overnight reverse repos (ON RRPs) to administratively set a range for the fed funds rate. By doing so, it divorces the size of its balance sheet from its policy rate target. Prior to October 2008, banks had little incentive to hold excess reserves rather than lend them out. However, when the Fed began to pay IOER, which was greater than the opportunity cost of holding those reserves at the Fed, banks rapidly increased their balances at the Fed. The strong demand for reserves weakened the normal monetary transmission mechanism. Hence, the Fed's large-scale asset purchases (also known as "quantitative easing" or QE) increased the monetary base but did not lead to a corresponding expansion of monetary aggregates or runaway inflation.

Today, there is no longer any substantial interbank lending on the fed funds market and the Federal Reserve continues to hold a large portfolio of longer-term Treasuries and mortgage-backed securities. By engaging in credit policy, the Fed politicized the allocation of capital; and by engaging in QE and forward guidance (promising to hold rates "lower for longer"), the Fed encouraged excessive risk taking and helped inflate asset prices. Moreover, the Fed appears willing to relax the stance of monetary policy whenever the stock market begins to tumble.

Without any stable long-run rule to guide monetary policymakers, there is still much uncertainty about future policy. Another crisis could mean a new round of large-scale asset purchases by the Fed and thus further intervention in credit markets—and lower, even negative, interest rates. Meanwhile, the Fed's new operating system provides a backstop for the Fed to absorb government debt without any apparent short-run consequence in terms of inflation, tempting Congress to delegate fiscal authority to the Fed.

The authors in this volume present an in-depth view of the Fed's new operating system, assess global financial stability and the role of central banks, consider the lessons learned from the past decade of monetary experiments, and suggest how the monetary regime could be improved and financial systems made more stable.

I thank the authors for their assistance in bringing this special issue of the *Cato Journal* to fruition and the George Edward Durell Foundation for its continuing support of Cato's Annual Monetary Conference. An understanding of the role of trust, the rule of law, and free markets in creating sound money and credit is essential to avoid policy mistakes that favor special interests and increase uncertainty. By studying the Fed's experiment with unconventional monetary policies, lessons can be learned on how to reform the monetary regime and mitigate business fluctuations caused by the monetary mischief inherent in our current unconstrained discretionary monetary policy arrangements.

—J. A. Dorn