From Stagflation to Quantitative Easing: The History of the Cato Institute's Monetary Conference

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The US economy was still in the shadow of stagflation as the market-oriented Cato Institute held its first monetary conference in January 1983.

The economists, journalists, and other policy wonks at that first Washington meeting could never have foreseen the dawn of a nearly 25-year "great moderation" of steady growth with low inflation.

"In fact, we had an inflation rate peaking pretty much in about 1980, 13 percent or so," Cato economist Jim Dorn, founding director of the conference, recalled on a recent episode of the *Macro Musings* podcast. "The federal funds rate, nominal federal funds rate, was almost 19 percent at one point. Mortgage rates were very high."

The 2007-09 crisis, though, was similar in severity to the 1981-82 recession, in which US unemployment hit a post-World War II peak of 10.8 percent. But the Federal Reserve's zero-bound interest rates and $4 trillion in quantitative easing in the last decade would have been mind-boggling to the first attendees at the conference, organized around a theme of "The Search for Stable Money."alan

"You're in the great inflation period and stagflation, and very volatile monetary policy—stop-go monetary policy," Dorn recalled. "So, the first conference was on the search for stable money, and that topic is still relevant today, but it was even more relevant at that time, because of the erratic monetary policy that was being conducted."

The first Cato conference was laden with leading economists, including Karl Brunner, Anna Schwartz, Michael Bordo, Leland Yeager, Allan Meltzer and Nobel laureate James Buchanan.

The first keynote speech, by Austrian émigré economist Fritz Machlup, very shortly before his death, was titled "The Political Economy of Inflation." He directly cited the perception that the Federal Reserve had "broken" the back of inflation through sharply tighter monetary policy, even at the cost of a severe recession.

Fed Chairman Paul Volcker led the central bank through that inflation battle, leaving in 1987.

"After that, of course, you had the Great Moderation with [Fed chief Alan] Greenspan, and I would say interest in monetary policy diminished somewhat" as people became accustomed to relative economic stability, said Dorn, who remains at the Washington-based think tank as vice president for monetary studies.

Still, Cato's annual conference quickly became an important venue for debate on both US and international monetary policies. Greenspan spoke three times at the event during his 1987-2006 tenure.

His successor, Ben Bernanke, spoke at the conference about how the Fed communicates monetary policy in November 2007, just as the US was hurtling toward a financial meltdown.

"Then, of course, the Great Recession came about, and the crisis of 2008, and everything perked up again with respect to rethinking the whole framework for monetary policy," Dorn said.

"And of course the Fed adopted a new operating framework…I think, right now, I've never seen really anything like what's happened since 2008, with the huge increase in the power of the Federal Reserve—starting with TARP, and then quantitative easing, interest paid on excess reserves, a new operating system, all of the new regulatory issues."

Dorn has continued to organize the annual monetary conference, now in its 37th year. On November 14, the day-long event, "Fed Policy: A Shadow Review," is aimed at the central bank's ongoing broad review of how it pursues monetary policy.

Federal Reserve Board Vice Chairman Richard Clarida is the keynote speaker. Scheduled participants include former Bank of England Deputy Governor Paul Tucker and former regional Fed presidents Jeffrey Lacker and Charles Plosser. *Macro Musings* host David Beckworth, Mercatus Center senior research fellow, will participate in a panel discussion on the Fed's operating framework.

"Underlying our conference was the idea that we wanted to improve the monetary regime. We wanted to widen the range of debate on monetary issues, and we wanted to get the best people around to get engaged in that debate, and we were successful on all those grounds, and also to get a diverse group of people, including many people, high-level people from the Fed," Dorn said.

"So we were trying to educate people, too, on sort of Hayek's view of monetary policy, competitive currencies, but in a friendly environment, rather than a hostile environment. And I think we've been very successful at that, and I think it's very important to take a rational view, and to allow monetary alternatives to be discussed in a high-level conference like our conference has become."