Forbes

Don’t Miss Cato’s 40th Annual Monetary Conference

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This Thursday, September 8, the Cato Institute will host its 40th Annual Monetary Conference. The brainchild of Cato’s Jim Dorn, the conference has featured hundreds of policy experts and government officials throughout the decades, and the 40th will be no different.

The conference opens with what will be Fed Chair Jerome Powell's only public speech ahead of the next FOMC meeting, a discussion between Powell and Cato’s CEO, Peter Goettler. It is somewhat rare for the Fed Chair to make public appearances outside of speeches, but the conversation with Powell adds to the Cato Institute's long history that includes appearances by both Alan Greenspan and Ben Bernanke.

This year’s theme is *The State of Monetary Policy after 40 Years*, and Nobel Laureate Thomas Sargent will deliver the keynote address. This year, the conference is virtual, and it’s not too late to register.

Even before the days of email and the internet, Dorn has always managed to fill the conference with some of the profession’s biggest names. The very first iteration, held January 21, 1983, included James Buchanan, Fritz Machlup, Karl Brunner, Allan Meltzer, Anna Schwartz, Gottfried Haberler, and Leland Yeager. (Excerpts from those speeches can be found here.)

The 40th will include, among others, Lawrence Summers, Tyler Goodspeed, Patricia Zobel, Larry White, and Cato’s own George Selgin.

Of all the panels, I’m most looking forward to *The Fed’s Operating System and New Monetary Framework: An Appraisal*. The Fed’s new operating framework has not garnered nearly enough attention, especially given that it is untried in an inflationary/high interest rate environment.

The Fed's open market operations, those that had served as the Fed's main monetary policy tool for decades, have been relegated to second fiddle ever since the 2008 financial crisis. Thanks to the Fed's decision to create a (leaky) floor system, with an above-market rate of interest on excess reserves, the federal funds market all but collapsed in 2008.

The federal funds targeting which, supposedly, was so vital for "setting" interest rates, has been virtually meaningless. Instead, the Fed has been operating chiefly by paying banks to sit on piles of excess reserves.

One problem, though, is that if rates rise (even back to long-term averages) before the Fed mops up these excess reserves the Fed will have to weigh paying billions of dollars in interest to large banks to sit on excess reserves versus watching banks invest those funds in the market.

Banks investing too much of those reserves too quickly is, of course, what the Fed must avoid if it wants to control inflation. That can't be a choice that Powell is relishing.

As the Fed tries to get inflation under control without causing a recession, it will also be interesting to hear Summers, Goodspeed, Claudio Borio and Mervyn King discuss *What Have We Learned*, especially because the Fed admits that it can't explain the years of below average inflation after 2008.

Regardless of which panel turns out best, with massive U.S. debt and deficits, inflation at a 40-year high, and political pressure to expand the Fed's mandate, there is no better time to assess the Fed's performance and future. Don't miss Cato's 40th Annual Monetary Conference.

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