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EDITORIAL

From the Editor

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This issue (and the next) contains material from the February 2018 NABE Economic Policy Conference. We thank the Peterson Foundation for its grant to the NABE Foundation for the appearance of these pieces. Some weeks after the Conference, Pete Peterson passed away. Pete, as he was known to all, had a remarkable life and career as a businessman (both as industrialist and financier), public servant, and philanthropist. He was a great supporter and benefactor of dispassionate, objective, public policy research, and will be sorely missed.

The first two items in this issue come from speeches delivered at the conference on the topic of financial and monetary policy. In his Paul Volcker award address, Mervyn King, who was Governor of the Bank of England during the financial crisis, spoke on the lessons that period gives for financial and banking regulation. King is highly skeptical that we can ever design a detailed financial regulatory and capital structure that would be robust in all situations. He proposes clearer guidelines and the prepositioning of collateral to facilitate the likely provisioning of massive amounts of liquidity by Central Banks in the event of a crisis. In his words, a Central Bank needs to be prepared to be "a pawnbroker for all seasons."

James Bullard, the President of the Federal Reserve Bank of St. Louis, addressed the topic of the natural real rate of interest—a subject of great concern in modern thinking about monetary policy. He argues that the low estimates that have been made of this parameter in recent years reflects heightened demand for safe assets, as opposed to lower growth of productivity or the labor force, and there is little reason to think that trend will soon reverse itself. With inflation remaining low, this further argues that monetary policy should continue to be cautious about moving the policy rate up aggressively.

The next two papers are drawn from presentations made at last year's NABE annual meeting on the fiscal consequences of aging populations. Karen Dynan of Harvard addressed the tax side. Her view is that with populations aging, tax systems should be increasingly geared to providing incentives to work and save, and become less dependent on taxation of business. There would be a tendency for interest rates to be low in an older, more slowly growing, society, which, as we have seen, complicates the ability of monetary policy to address economic downturns. This factor suggests a reinforcement of automatic fiscal stabilizers.

Jason Fichtner, of the Mercatus Center, notes that aging produces fiscal stress in two ways. A higher share of elderly in a population results in greater expenditures on health and pensions (offset in part by less educational spending), while a declining share of workers reduces tax capacity. These problems will not be confined to the developed world. He argues that fiscal concerns related to aging need to be addressed holistically, taking into account the entirety of tax and spending programs and their impacts, not one problem at a time.

The sluggishness in U.S. residential investment, continuing now for a decade after the bursting of the housing bubble, and long after the end of the financial crisis, continues to puzzle observers. Laurie Goodman of the Urban Institute, in a paper based on a Policy Conference presentation, places the blame for the softness on two factors: constraints on physical supply, and restrictions on credit. The supply problems relate to growing regulatory constraints on builders, and limited numbers of construction

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workers. On the credit front, lenders have drastically reduced their willingness to make risky loans, relative to objective measures of borrower's characteristics, and the cost of servicing mortgages, especially delinquent ones, is several times higher than a decade ago.

In the Statistics Corner, Erica Groshen, the most recent Commissioner of the Bureau of Labor Statistics (the post has been vacant since her term ended in January 2017) describes the work of the Bureau and the many challenges it now faces. The data produced by BLS is absolutely essential to understanding economic developments and designing policy, across a wide spectrum of topics. However, BLS budgets have been under downward pressure for years, not only hampering its ability to undertake exciting new projects, but now reaching the point that critical programs may be in jeopardy. Groshen calls for NABE members to take action to "preserve the data and its integrity."

In the book reviews, Cary Leahey discusses Peter Conti-Brown's *The Power and Independence of the Federal Reserve.* Brown's book calls for a major transformation of the Federal Reserve System, including the elimination of the regional banks, and presidential appointments for some of the key staff members, such as the head of supervision. Leahey finds many of the arguments Conti-Brown makes for such changes to be persuasive; however, he is not certain that these reforms would necessarily lead to better policy and better outcomes.

Michael Horrigan reviews Nicholas Eberstadt's *Men Without Work*, a study of the longer-term decline in male labor-force participation. Horrigan finds the book to be an impressive discussion of the facts and many of the forces that may have contributed to this trend. However, he believes that Eberstadt's focus on cross-sectional data may have led him to downplay the impact of factors such as changes in the demand for labor.