From the Editor

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This issue contains pieces on a varied number of topics, ranging from monetary policy, to a reconsideration of Alan Greenspan's record as Fed chairman, to saving behavior by millennials, to statistics on new business formation, to analyses of the generic drug and rug industries.

The first two articles are write-ups of presentations that were made in early January at one of the NABE sessions held at the ASSA meetings in Chicago. In the first, Chicago Federal Reserve president Charles Evans discusses some basic strategies for monetary policy in the economic environment that has characterized the U.S. for some time. Essentially, Evans agrees with the argument that potential growth is considerably slower than we were long used to, which implies that the neutral real interest rate—considered a benchmark for monetary policy—is also low. With inflation likely to stay low, this implies continued low nominal interest rates, raising the threat that in periods of economic weakness the Federal Reserve is likely to again face the zero lower bound problem. “Unconventional” monetary policies of the sort that were used in the wake of the financial crisis would then likely need to be dusted off, but these are rather awkward mechanisms. To avoid this problem, Evans argues that monetary policy should focus on lessening the odds that nominal interest rates again hit zero.

In the second piece, Signe Krogstrup of the International Monetary Fund assesses the performance of monetary policy around the world since the crisis. Some critics argue, given the sluggish growth of advance economies in recent years, that “easy” monetary policy did not work—in particular, unconventional policies were ineffective and ill-advised. Krogstrup's reading of the evidence is that the neutral rate of interest fell to remarkably low levels in the crisis and, agreeing with Evans, sees it remaining low compared to historic averages. In this situation, Central Banks' adoptions of unconventional policies were quite defensible. However, the usual characterization

of monetary policy as unusually easy should be reversed: taking into account the low neutral rate, in many cases policy was “too tight.” Krogstrup notes that some Central Banks need to continue to their use of unconventional policy instruments; for instance, the recent use of negative nominal interest rates could well be providing some degree of needed stimulus to their economies.

William Poole, the former president of the Federal Reserve Bank of St. Louis, has a review article addressing issues raised in Sebastian Mallaby's biography of Alan Greenspan. Poole concurs in the widespread praise the book (*The Man Who Knew: The Life and Times of Alan Greenspan*) has earned for its depiction of Greenspan's personal background and life. However, he disagrees forcefully with Mallaby's argument that a good share of the blame for the financial crisis should rest on Greenspan's shoulders for failing to deal with the housing bubble. First, Poole disputes the idea that bubbles are easy to identify and address. More importantly, Poole finds that Mallaby did not discuss substantive and well-known charges that the Government-Sponsored Agencies (GSEs) played an important, if not central, role in creating the conditions that led to the crisis. Poole notes that Greenspan was, indeed, critical of the GSEs at the time, that the Fed had no statutory control over these firms, that Greenspan's political influence, large as many believed, was less than the GSEs, and finally, that the GSEs were misrepresenting their positions in the subprime market. Hence, Poole rebuts claims that the crisis can be laid at Greenspan's feet. This piece contains considerably more about Greenspan, and Poole's critique of Mallaby's work, and should be essential reading for anyone interested in the crisis and the run-up to it.

The paper by LaVaughn Henry examines precautionary saving behavior by U.S. millennials. Using data from the Federal Reserve's Survey of Consumer Finances, Henry finds that millennials, faced with a more uncertain economy, have indeed been accumulating relatively high stocks of liquid assets that can be viewed as precautionary savings. This increase in

precaution could arguably result in significant shifts in the size and composition of aggregate household spending in the future as millennials' income and spending becomes an increasingly large share of the national aggregates.

In a *Focus on Statistics* article Paul Reynolds discusses differing perspectives one may have on the economic activity of new firms. Working with data from the Panel Survey of Entrepreneurial Dynamics, Reynolds shows that varied notions of what constitutes the creation of a new firm, and how that date is assigned, result in a considerable range of estimates of the time it takes for the new entity to generate different types of economic activity. The implications are that it requires considerable judgment to make generalizations about the role of new firms in economic growth. Results are sensitive to the precise definition of when the process of forming a firm starts and when the firm starts operations, and what is the concept of activity being considered.

There are two *Focus on Industries and Markets* articles. In the first, Kevin Swift and Emily Sanchez, tackling a tuft problem, and unwilling to sweep anything under the rug, examine the carpet industry. Bad jokes aside, the paper describes an industry that has seen waves of transformation generated by technological advances and preference changes, as well as cyclical swings. Sustained growth traceable to the development of low cost processes, as well as to the long secular expansion of homebuilding, appears to have ended. Not only has residential investment been sluggish, but higher-income consumers have also apparently shifted their tastes to other forms of flooring.

In the second piece, Evan Hoffman looks at generic drugs, another industry in the throes of transformation. Efforts to slow the growth of health care costs have spurred the rise of the generic drug industry, but patent holders continue to have some success

defending their markets, and domestic generic producers, while seeing growth in exports, face competition from firms in a growing number of nations.

Finally, the issue contains two book reviews. Larry Neal examines William Goetzman's *Money Changes Everything: How Finance Made Civilization Possible*, a provocative work that examines how the history of many societies and nations, going back to ancient times, has been affected by their specific financial structures. Stephen Williamson reviews Kenneth Rogoff's *The Curse of Cash*. Williamson agrees with Rogoff's view that reductions in cash use, in favor of electronic means of payment, could generate meaningful gains in economic welfare. He disagrees, though, with Rogoff's argument (drawing on comparable analysis to that used by Evans and Krogstrup) that, since more widespread use of electronic means of payments makes negative nominal interest rates a more practical possibility, a decline in cash use would facilitate Central Banks' ability to counter recessions.

Kevin Kliesen earns a strong note of thanks for his help on this issue. Kevin, who has stepped in as our Book Review editor, arranged for not only the two reviews but also Poole's paper. Of course, Kevin Swift and Andy Gross also get thanks for their work arranging for the *Focus on Industry and Markets* pieces (and in Kevin's case, co-authoring one), and Bob Parker provided major assistance to the *Focus on Statistics* paper. As always, members of the Editorial Board have been invaluable in reviewing submitted papers.

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