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There is a singular lack of consensus about what caused the economic and financial crisis of 2007–09. That there is a similar lack of consensus about how best to exit from the crisis should not, therefore, be surprising. Before I address the specific questions put to me by Olivier Blanchard, I would like to offer some general reactions to what I have heard at this conference.

First, the overall objective should be strong, sustained, and balanced worldwide growth. Financial sector repair is part of that process, but it is only one part. Nor is it the most important element for every country. The circumstances of individual countries differed in advance of the crisis. Their actions as the crisis unfolded differed as well. It is attractive to think about phased, coordinated exit plans, but I do not think that will be the most likely outcome, nor should it be the guiding principle. It is desirable for national plans to be phased, for partner countries to be as informed about those plans as is practicable, for antisocial behavior to be minimized, and for plans to be coordinated in that sense. However, reality will fall short of even that modest ideal.

Second, on the treatment of nonconventional assets purchased by central banks, my view is that this is not an issue of high importance, at least for the United States. The Federal Reserve appropriately took extraordinary actions during the crisis. As a result, the Federal Reserve has suffered criticism from many who should know better. Those critics are not going to be silenced by a quick restoration of the Federal Reserve's balance sheet to the status quo ante.

The balance sheet of every central bank is ultimately a part of the balance sheet of its government as a whole, even if some central banks would like to pretend otherwise. The fact is that United States more effectively shares a consolidated balance sheet between its central bank and treasury than do most other countries. Federal Reserve profits and losses flow through to the Treasury on a weekly basis. (In the case of international assets, this treatment extends to paper gains and losses, as holdings are marked to market.) It follows that it is of limited significance whether the Federal Reserve or the U.S. Treasury holds the unconventional domestic assets acquired in the crisis. If the Federal Reserve takes losses on its holdings, or on sales of its holdings, there will be an immediate loss of revenue to the Treasury from the Federal Reserve just as if the Treasury had held the assets. Perhaps the Treasury would be more likely to hold certain assets to their maturity, and perhaps the resulting losses to the taxpayers would be lower, but this is not obvious, as the assets would have to be financed in the meantime.

Third, in thinking about unwinding monetary stimulus, a focus on so-called excess reserves is not the right place to start. Today the U.S. banking system holds willingly—indeed demands—more reserves than is normal. This fact is inconsistent with the view that there is a huge monetary overhang that will soon lead to a renewed credit boom. It is true that if the Federal Reserve raises its policy rate (the federal funds rate) significantly relative to the rate it pays on what are technically excess reserves, then the central bank may face overly rapid growth of the money supply. But that is not the most important issue right now.

Let me now answer the questions Olivier Blanchard posed to me before this conference:

Will the process of withdrawing public support in the financial sector be influenced by the ongoing regulatory and supervisory reform in major countries? There will be unpredictable and unintended consequences of phased repair, reform, and recovery of the financial sector. But the aim of the financial sector reform is not to go back to business as usual. There will be some hiccups as we approach a new normality. The system should be able to absorb a few bumps in the road.

Which country circumstances should most importantly affect the unwinding approach? The truth is that each country is going to unwind its extraordinary support activities for the economic and financial system in its own way. I am concerned about the fixation I hear at this conference on putting fiscal recovery first. While that may be desirable in principle, it may not happen. What if the fiscal authority does not get its act together? Does that mean the monetary authority should just sit on its hands? I think not. But even if the fiscal authority initiates unwinding in a timely manner, it might take 18 months. Does that mean monetary policy should also be unchanged for the same period? Not necessarily. In the more likely event that fiscal policy in one or more countries is less than ideal, that also does not mean the monetary authorities should stand by until the fiscal authorities finally act. The risk is that political pressure on the monetary authorities will increase under these circumstances. It should be resisted.

Finally, if we think about monetary policy not in terms of its impact on the individual country but in terms of its impact on the global financial environment, we should be especially cautious. National monetary policy authorities mistakenly kept interest rates too low for two long in the past decade in the United States, Japan, Switzerland, parts of the European Union, and many emerging market economies. This was a major contributing factor to the crisis via mechanisms such as the carry trade. History does not repeat itself precisely, but we should learn its lessons.

What should countries most affected by financial crises be most watchful for? There is an understandable concern that countries should avoid a premature exit from their support activities before financial repair is well underway. At this point, however, what I worry more about, at least in terms of monetary and financial policies, is a transition that is much too late rather than much too early. Countries should expect aftershocks from the crisis, much like the events we saw in Dubai in November. The seeds were sown years ago. There will be many more such aftershocks. That likelihood should not limit timely exiting.

Which countries are most at risk from suffering distorted capital flows? The countries that are most exposed will be the countries most at risk from distorted capital flows; in other words, it will be those countries that have the greatest imbalances, broadly defined to include much more than current account and external debt positions. A country has a problem if it entered the crisis period with a high inflation rate and comes out of the crisis period with a high inflation rate—it therefore now has a relatively high nominal interest rate. If its exchange rate is pegged, its problem will be exacerbated because it is at additional risk of large capital inflows. Is that the fault of the central countries and their easy monetary policies or is it the fault of the imbalances in the peripheral countries? Bygones should be bygones and not become excuses for not addressing imbalances.

What are the costs and externalities if countries unwind in an uncoordinated manner? The answer to this question depends on what is meant by a *coordinated* manner. In my view, we are going to have differentiation in the timing and content of postcrisis policy adjustments. That is inevitable because the original interventions themselves differed in line with countries' ex ante circumstances. So we are going to have some inherent differentiation as countries exit. This will produce some adverse external consequences—negative externalities. The best we can hope for is shared objectives, open information flows, a minimum of free riding and deliberately antisocial policy actions (such as competitive nonappreciation of currencies), and international support for those countries caught up in the backwash of events. As we emerge from this crisis, it would be dangerous and inappropriate to try to run a convoy system in which the weak hold back the strong to the detriment of obtaining the goal of strong, sustained, balanced worldwide growth for almost all.