

**Rethinking Macro Policies II Conference:  
Welcoming Remarks by the Managing Director**

**Tuesday, April 16, 2013**

Good afternoon.

Welcome to the **second conference on Rethinking Macro Policies.**

The IMF hosted the first conference on this subject two years ago. It was the type of innovative and free-thinking forum that the economic world needed—and still needs.

**The crisis gave us all pause for thought.** For the last five years, we have had to think and rethink our economic theories, consider and reconsider our economic policies, and construct and reconstruct our economic strategies.

The **first Rethinking Macro conference** outlined the many ways in which the pre-crisis consensus had been shattered. But it didn't even try to propose a new consensus.

While it might still be too early to reach a new consensus, we need to keep the process moving forward, striving for an eventual consensus. To get there it is only right that we, periodically, step back and assess what we have learned.

That is the **purpose of this conference**: “First Steps and Early Lessons.”

As **Winston Churchill** said, *“Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.”*

Churchill made these remarks in a very different context, of course. But I recall them today, because I believe we are now facing a great challenge: rethinking and reimagining how to get our economies back to work.

Today, I am not planning to draw out the lessons from the crisis. This, I will leave to you. Instead, I want to **highlight a few areas where I think your assessments are most needed**. My list will necessarily be highly selective.

One of the most striking aspects of the past five years is how developments have again and again forced policymakers to rethink macroeconomic policy. First came Lehman. That revealed how much we all had underestimated the dangers posed by the financial system, and overestimated the powers of monetary policy to resolve them. Then came the euro crisis, which forced us to rethink the foundations of currency unions and the workings of fiscal policy.

**What should we conclude from all this rethinking and experimenting?**

Let's start with **monetary policy**.

Since the crisis, the central banks in the advanced countries have been implementing unconventional monetary policies.

Most of us think this has helped to prop up the advanced economies, although some people question how effective these policies have been. Certainly, there are outstanding questions about the side effects of unconventional monetary policies, and we are by no means sure whether any of these measures will prove necessary or effective once high unemployment subsides. What might be the enduring lessons from this experience?

Consider another question: **how to deal with financial crises.**

The past few years have demonstrated all too clearly that cleaning up after financial crises is extremely difficult—and painful. It is, of course, **far better to prevent crises** in the first place. But devising a prevention strategy is not easy.

In principle, central banks could **lean against bubbles**, raising interest rates when they see large misalignments in asset prices. But how should we define a “large” misalignment? And how should we calibrate the interest rate response? The answers remain unclear.

**Macroprudential policies** are another strategy for preventing financial crises. Indeed, many central banks have experimented with such policies over the past five years. It would be interesting to hear your evaluation of this experience, especially as the evidence seems to be quite mixed.

A key issue is **how to draw the regulatory perimeter**. The narrower the measure, the more precisely it can be targeted. But the more easily it can be evaded.

Partly because we don't seem to have solved this problem, we don't know enough about whether such policies can effectively dampen asset price cycles, or even whether they can even ensure that financial institutions have sufficient buffers in cases of asset price collapses. It will be interesting to hear how you read the evidence—and how you think policymakers should move forward.

Finally, **fiscal policy**. This has been at the heart of the most intense debates. Over the past five years, we've learned what appeared to be safe levels of public debt before the crisis were in fact not so safe.

Yet, today, there are still plenty of questions about what are safe debt levels, and how fast we should return to them.

Naturally the answer depends on the extent to which current debt levels are harmful or dangerous. It also depends on just how damaging fiscal consolidation will be to growth, and how much this damage can be reduced by changing the speed and composition of the fiscal adjustment. This is another critical area in which your views and your experiences would be helpful.

Who better to make these assessments than you, the academics who have conducted the critical research and the policymakers who have implemented the new strategies?

Each one of you—panelists and attendees—was specifically invited to this conference. You all have something important to contribute to this discussion.

The more thoughts, ideas and perspectives that we consider, the better positioned we will be to do our jobs. So, I **encourage you to join the conversation**. I am sure the next two days will be stimulating and exciting.

Enjoy the conference.