



Work to be Done

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As readers of *The Region* will note from their September issue, I was recently named to succeed Gary Stern as president of the Federal Reserve Bank of Minneapolis; or, as editors of *The Region* imagine the office, I was selected as the new writer of this Top of the Ninth column. Editors live in their own peculiar world, but in a way they are right—a key role of a Federal Reserve bank president is to communicate with the public, to share views and insights about economic events and to especially discuss matters relating to the Federal Reserve. When it comes to the Federal Reserve, there is certainly no dearth of issues to discuss these days, and I eagerly await the many opportunities, whether through this column or in articles or speeches, to raise those questions with you.

One issue on the table, and not only for the Federal Reserve but also for the economics profession generally speaking, is the role of economic

research in policymaking. Much has been written on the value of macroeconomic research in recent months, especially given its seeming failure to anticipate the current financial crisis and to propose clear solutions. I have strong views on this matter, since I have spent my career to this point as an academic economist engaged in theoretical and empirical research focusing, in part, on questions relevant to our current situation. This issue has even greater resonance for me now that I have been named to lead a Federal Reserve bank. Indeed, I view the role and value of macroeconomic research as a foundational question for my tenure as president of this bank; likewise, I plan to publish an essay in our forthcoming *Annual Report* (spring 2010) on this very question.

As a preview to that essay, I will say this: It is true that modern macroeconomic models have not been particularly helpful in answering important ques-

tions surrounding the recent financial crisis. However, that does not mean that we should move back to previous era models, as some have advocated (after all, those models don't answer these questions either). Rather, we need to learn from this event and build on our existing models, which already incorporate significant progress over the past 30 years. I believe there are promising directions that macroeconomics can take to address its shortcomings and provide useful policy guidance. There is plenty of work to be done. From our perspective, the great news is that the research department here and the economics department at the University of Minnesota are well poised to be central in this mission.

The list of questions facing the Federal Reserve and its policymakers is not short. We will need to deal with financial regulatory reform, the status of the U.S. economy as it emerges from a deep recession, the conduct of monetary policy with a \$2 trillion balance sheet, and the role and structure of the Federal Reserve's system of decentralized regional banks. I anticipate a vigorous discussion with my colleagues on the Federal Open Market Committee and within this bank, with fellow economists who are working on these questions and with you. I am sure that my grounding, and the grounding of this bank, in economic reasoning will be fundamental to my approach. An example of this approach can be seen on the following pages of the *Region*, where readers will find an analysis of incentive compensation in the financial industry. This article is the first in a series of policy papers to be based on research by our economists.

Since taking office in early October, I have often been asked why I was interested in becoming a Federal Reserve bank president, especially as I

have spent my career in academia, teaching students and puzzling over difficult economic problems. But for me that's the wrong question. Rather, the question is, why wouldn't I want to be a Federal Reserve bank president, especially with so many important questions left unanswered? For a research economist with a deep interest in public policy, there is no better time than now to accept such a position, and it is an honor to serve in this capacity.

One of the lessons from this recent financial crisis is the importance of communication, whether between financial institutions and their regulators, between Congress and the regulatory agencies, among those agencies themselves, and between all public officials and the American people. Communication is not only key for effective policymaking, it's also a fundamental responsibility of policymakers. I take that responsibility seriously and look forward to talking with many of you in the future, whether through formal channels like this magazine and our Web site, or more informally through speeches, Q & A sessions and direct conversation. So I guess *The Region's* editors have a point. In many respects, my new job title is Top of the Ninth writer for the Federal Reserve Bank of Minneapolis, but I think I'll stick with president—it's easier to communicate. ■