



New Worries for Central Bankers

"THE JOB OF THE central bank is to worry." That's how Alice Rivlin, vice chair of the Federal Reserve Board in the 1990s, described the work of monetary policymakers. Back

then, central bankers had one main concern: to keep inflation in check. Now, inflation is one of several worries facing central banks. A rapidly changing economic backdrop leaves less maneuvering room for policy, while structural forces—geopolitical fragmentation, climate change, an aging workforce, and the advent of digital money—have greatly complicated the underlying policy challenge. Central bank mandates and even their independence are under increasing political pressure. These new forces and others raise questions about how monetary policy may have to change going forward.

In this issue, distinguished contributors offer insights on how central bankers can navigate an increasingly complex world.

The IMF's Gita Gopinath details how economists need improved tools after existing models missed the recent inflation surge. Markus Brunnermeier argues that, in a post-pandemic world with higher inflation, lower growth, and more debt, central banks are still pursuing policies modeled for the days of tepid inflation, low interest rates, and robust growth.

How, then, should central bank frameworks and mandates change? Less is more, says Raghuram Rajan. He explains why central banks should refocus on their primary role, price stability, while respecting financial stability. For Giancarlo Corsetti, exceptional circumstances such as the pandemic may call for monetary and fiscal authorities to work together—but only temporarily and never at the cost of their independence.

David G. Blanchflower and Andrew T. Levin suggest ways central bankers can avoid the temptation of groupthink, which can threaten their credibility. Greg Kaplan and coauthors show how new models help us understand monetary policy's influence on income and wealth distribution. And Michael Weber describes how better monetary policy communications can shape expectations.

Economics as a discipline is evolving in a highly uncertain era—one that demands reflection on models, customs, and assumptions. I hope this issue helps spark further debate. **FD**

GITA BHATT, editor-in-chief



ON THE COVER

As the era of low inflation and low interest rates comes to an end, central banks are in the spotlight as the world awaits their next moves. Illustrator Pete Reynolds' March 2023 cover depicts the world's key monetary institutions awash in data.

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