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## New PIIE Book Reassesses Policymakers' Insufficient Response to the Financial Crisis

WASHINGTON—An exaggerated fear of inflation and of policy failure among central bankers hampered their efforts to revive global prosperity after the financial crisis and the global economic slump, according to a new book published by the Peterson Institute for International Economics (PIIE). The book, *The Paradox of Risk: Leaving the Monetary Policy Comfort Zone* by Ángel Ubide, a former senior fellow at the Institute, argues that economic policymakers sabotaged their own efforts to restore growth and inflation in the wake of the crisis by adhering dogmatically to the conservative consensus of combating inflation, reducing public deficits, and discouraging risky behavior by investors. The author argues that central bankers now need to leave their “comfort zone” in devising growth strategies and improve their policy frameworks for responding to future crises and recessions.

The book will be launched at an event at the Peterson Institute on October 19. Ubide, a longtime expert on central banking, European affairs, and macroeconomic policy, who has also worked in the hedge fund industry and at the International Monetary Fund, is currently a managing director at Goldman Sachs' Private Wealth Management group.

A decade after the financial crisis erupted, Ubide argues, the major central banks are still struggling to find a robust framework to achieve their mandated economic goals of sustainably low unemployment and stable inflation. His contention is that while GDP growth has been restored, economic slack remains sizable, investment has yet to respond, and inflation has not credibly returned to safe, sustainable levels despite low interest rates. The virulence of the crisis caught central banks by surprise, and even when they became more activist in response, they encountered much suspicion and political resistance when adopting new tools. The high inflation of the 1970s, and the subsequent Great Moderation, created an excessive bias among economists and central bankers against inflation and risk taking. This bias has rendered central banks and policymakers less effective against periods of prolonged disinflation and risk aversion. Ubide proposes a revised monetary policy framework for the major central banks that would require strict symmetry with respect to inflation and deflation and that additionally would aim to stabilize risk aversion around normal levels.

*The Paradox of Risk: Leaving the Monetary Policy Comfort Zone*  
(Policy Analyses in International Economics 108)

Ángel Ubide

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