

CONTENTS

Note: Data and other ancillary materials are posted on
http://www.pierrelsiklos.com/into_the_breach.html.

Preface xi

Acknowledgments xv

List of Abbreviations xvii

1. **Moderation Before the Storm** I
 - The Backdrop 1
 - The Way It Was 4
 - A Turn for the Worse 6
 - A Bird's Eye View of Global Macroeconomic Activity
and Institutional Developments 9
 - Conclusions 40
2. **When Finance and the Real Economy Collide** 43
 - Policymaking, Fast and Slow 43
 - Monetary Policy Meets the Financial Stability Motive 47
 - Patience Meets the Need for Action 53
 - The Inevitable Collision? 60
 - Whither Monetary Policy Strategies? 65
 - Lessons in Communications 69
 - Surprising Lessons 72
 - Conclusions 78
3. **The Anatomy of Financial Crises and the Role of Monetary Policy** 81
 - Varieties of Financial Crises 81
 - Does the European Monetary Union Serve as a Cautionary Tale? 87
 - The Eurozone in the Global Context 91
 - The Pivot Toward Financial Asset Prices 94
 - Politics Meets Economics 100
 - Exiting Is Hard to Do 105
 - The Consequences of Staying Too Easy for Too Long, Without
Empathy for Others 111
 - Together Apart: *Plus ca Change?* 118
 - Conclusions 123

4. **The Decline of Simplicity and the Rise of Unorthodoxy** 126
 - Ambition Stymied 126
 - Of Crises and Tail Risks 128
 - Why Did No One See It Coming? 134
 - From Rules as Orthodoxy to the Great Digression 142
 - Where to Go from Here? 148
 - From Prices to Quantities: The Zero Lower Bound and the Central Bank Balance Sheet 158
 - This Time Is Different, at Least for Monetary Policy 160
 - When Words Are the Only Game in Town 165
 - Conclusions 170
5. **The Over-Burdened Central Bank and the Shift Away from Autonomy** 173
 - Overwhelmed and Overreaching? 173
 - Wanted: A New Deal for Central Banks? 177
 - Whither Central Bank Autonomy? 182
 - Ambiguity Makes a Comeback 187
 - The Curious Case of Japan 189
 - Is Overwhelming Force the Answer? 193
 - Is Japan Special? 195
 - Vanishing Faith in Central Banks? 199
 - Conclusions 201
6. **Disquiet on All Fronts?** 204
 - Sources of Disquiet 204
 - Confidence Gaps 206
 - Confidence Hangs on a Thread 209
 - The Constituents of Institutional Trust 210
 - Words Matter 218
 - Confidence and Monetary Policy Objectives 224
 - A Failure of Responsibility or Curiosity? 231
 - The New Frontier: Combining Financial Stability and Monetary Policy 237
 - Conclusions 246
7. **Trust, But Verify: The Road Ahead** 248
 - Where We Have Been and Where We Are Now 248
 - A Few Essential Ingredients 256
 - Should the Unconventional Become Conventional? 257
 - Changing the Message and Improving the Strategy 261
 - The Inflation Solution and Deflation Mongering 266
 - Evaluating the Unobserved: The Natural Rate Question 273

The Uses and Abuses of Rules	279
Leaving the Status Quo Ante Behind	281
Bretton Woods Reimagined?	286
Conclusions: Use as Directed	287
Epilogue: The Twilight Zone?	294
References	301
Index	321