

# Letter from the President



As this publication goes to print, we are slowly closing the books on one of the most tumultuous economic periods since the Great Depression.

An infection in the American housing sector spread like an epidemic through financial markets to countries around the world. In a matter of months, economic growth in developing and developed countries alike shifted abruptly into reverse. International trade collapsed. Manufacturing activity plummeted. Employment growth hit a wall before beginning a painful decline. No nation was spared the contagion's effects as the global economy was dragged forcefully to the edge of a precipice.

A global crisis of historic magnitude necessitated a commensurate global response. Monetary policy makers around the world quickly began to work together—announcing coordinated policy movements and establishing swap lines for foreign exchange.

The events of this crisis underscore an important fact: We live in a truly interconnected world. What happens beyond our borders can have a significant impact on our domestic economy and, as a result, on U.S. monetary policy.

It was that fact that motivated my decision in 2005 to make the study of globalization and its implications for the conduct of monetary policy the Dallas Fed's signature research issue. That directive

culminated in the fall of 2007 with the formation of our Globalization and Monetary Policy Institute.

Under its auspices, top minds from around the globe have come together to explore the linkages between an increasingly interconnected global economy and monetary policy. In the two years since the institute's establishment, its research team—under the advisement of professional and academic experts, including two central bank governors and one Nobel laureate—has garnered considerable attention. Staff members have presented their findings at conferences across the country and published their research in some of the profession's leading journals.

These individuals have also contributed significantly to the Federal Reserve's understanding of our most recent crisis. For instance, in his essay entitled "The Financial Crisis, Trade Finance and the Collapse of World Trade," Director Mark Wynne cuts through headlines lamenting the end of globalization to identify potential factors behind the recent collapse in world trade. Wynne argues that the trade declines of the Great Recession were likely a result of deteriorating global economic activity and a drying up of trade finance. His analysis provides evidence that protectionist policies—while always dangerous enough to warrant a watchful eye—are not yet on a significant rise.

Members of institute staff were called upon by

the Federal Open Market Committee—the Federal Reserve's principal policymaking group—to present their work on inflation dynamics. These individuals provided analytical support for the notion that price pressures at home can be affected by economic slack abroad. While empirical evidence remains fragile, one thing is clear: The Fed must remain abreast of international developments if it is to deliver on its mandate for price stability.

In the 2009 Annual Report of the Dallas Fed's Globalization and Monetary Policy Institute, readers will learn more about these research efforts and activities over the past year. Members of this elite team are at the leading edge of economic research and continue to build on the institute's reputation for excellence in the study of globalization and its impact on monetary policy. While they have not yet found all the answers, I am confident that they continue to ask the right questions. My colleagues and I are most grateful for their efforts and look forward to the insights we will derive from their important work.



Richard W. Fisher  
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