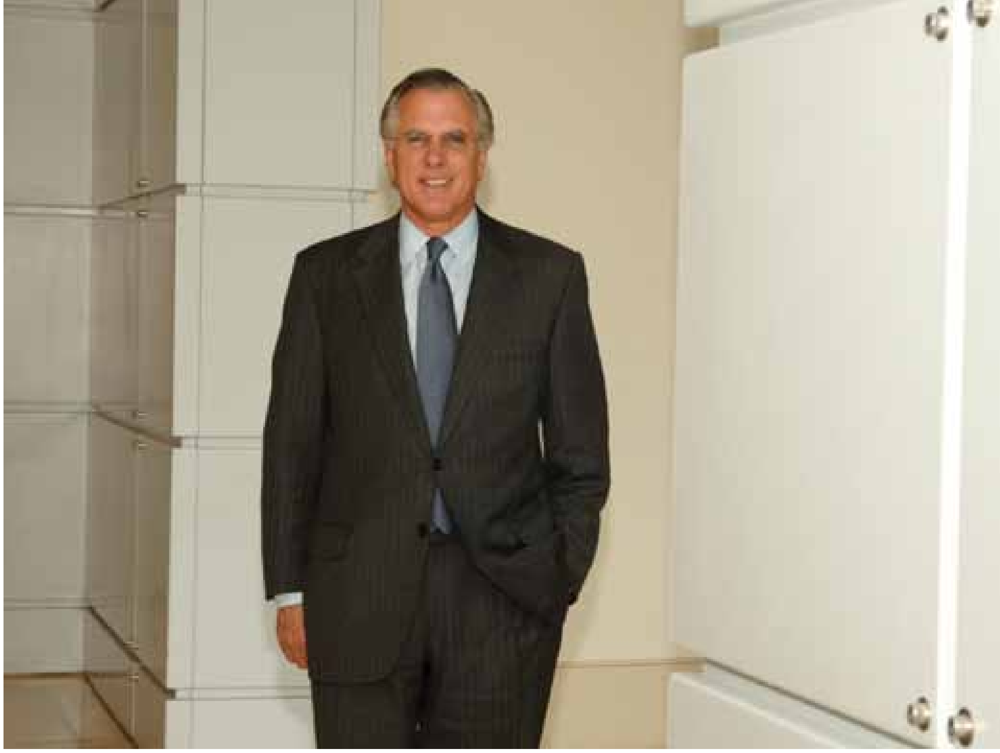
Letter from the President



With the public finances of so many countries in a parlous state, central bank independence has never been more important, ensuring that central bankers are able to deliver on their mandates. The Federal Reserve Bank of Dallas' Globalization and Monetary Policy Institute annual report for 2011 contains two articles that illustrate how crucial central bank independence is to monetary and price stability.

The first, by Janet Koech, documents how Zimbabwe became the first country to experience hyperinflation in the 21st century. It is a sad tale of how political pressure to monetize unsustainable government spending can be the undoing of a country and reverse decades of economic development. The second article, by Mark Wynne and Ed Skelton, looks at Mexico's experience over the past two decades and makes for happier reading. It shows that by embracing sound central banking practice—specifically, by enshrining the independence of the Banco de México in the Mexican constitution and adopting inflation targeting—Mexico was able to end the vicious cycle of financial instability that had plagued it from the 1970s. To be sure, Mexico still faces significant development challenges, but monetary instability is no longer the obstacle to growth that it once was.

The report also contains an article by Christian Winge on the factors that drive popular support for free trade and open borders. Few things make it harder to sustain political support for open markets than economic distress and uncertainty, making it all the more important that we return to vigorous growth and low unemployment.

2011 was another good year for our globalization research program. The institute issued the 100th working paper in a dedicated series dating back to 2007 and also hosted its inaugural public lecture, delivered by Jürgen Stark, then chief economist of the European Central Bank. We were fortunate to be able to launch this lecture series with such a distinguished public servant. A key message of his lecture was the importance of conducting monetary policy with an eye toward medium-term price stability—and the critical role central bank independence plays in ensuring such an outcome.

Richard W. Fisher
President and CEO
Federal Reserve Bank of Dallas

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