

Thomas Jordan: Kenneth S Rogoff – monetary policy research

Text of the inaugural Karl Brunner Distinguished Lecture Series by Mr Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, Zurich, 22 September 2016.

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For further information on the Karl Brunner Distinguished Lecture Series, see www.snb.ch.

Ladies and gentlemen,

I am very pleased to welcome you to the inaugural lecture in the Karl Brunner Distinguished Lecture Series. The Swiss National Bank has established this annual lecture series to honour academics whose research is of particular relevance for central banking. Our aim is to give prominent academics a platform to share their monetary policy research with a wider audience.

In this way, we contribute to the public debate on monetary policy and central bank mandates. For our monetary policy to be effective, it is important that the general public understands the SNB's mandate, our thinking and our concrete policy measures. The quality of monetary policy depends crucially on the quality of the underlying analysis. We hope that the presentation of new research findings from leading academics in this lecture series will also have a positive impact on research at central banks.

The lecture series is dedicated to the renowned Swiss economist Karl Brunner, who was born in Zurich 100 years ago. Karl Brunner shaped Swiss monetary policy following the collapse of the Bretton Woods system of fixed exchange rates, when the Swiss franc was floated. Brunner advocated monetarism, in particular the idea of ensuring price stability by controlling the money supply. The SNB took up this idea and used money growth as an intermediate target, combined with clear communication of its monetary policy strategy.

Karl Brunner was not only a keen proponent of incorporating economic theory into central banking practice. He also encouraged central banks to conduct their own research and to build up their capacity regarding economic analysis. We are deeply indebted to Karl Brunner for the positive impact he has had on our understanding of monetary policy issues.

The first academic being honoured by the SNB in the Karl Brunner Distinguished Lecture Series is Kenneth S. Rogoff. It falls to him to give the inaugural lecture. Ken Rogoff has made a name for himself through groundbreaking academic publications relevant for central banking. He also has an impressive track record as regards practical application. This he has demonstrated to great effect, for instance, during his time as chief economist at the IMF and in his commentaries on current economic policy questions. The qualities that mark out a good practitioner are not necessarily the same as those that make a good academic. Finding them in combination is very rare. But it is something that Ken Rogoff shares with Karl Brunner – neither of them having lived in an ivory tower.

Like Karl Brunner, Ken Rogoff began his career as an economist at a central bank, in his case the Board of Governors of the Federal Reserve System. He then followed an academic path, just as Karl Brunner did. The early experience gained at a central bank is probably one reason why Ken Rogoff's research is always relevant for economic policy. After leaving the Fed, he held academic tenures at universities such as Wisconsin, Berkeley, Princeton and Harvard. Between 2001 and 2003, he was, as I've already mentioned, chief economist at the IMF, before returning to Harvard.

Students of economics know Ken Rogoff because of his textbook *Foundations of International Macroeconomics*, which he wrote together with Maurice Obstfeld. At the heart of the book is a micro-based macro model for open economies. This model lends itself, for instance, to the analysis of international capital markets, exchange rates and the

international transmission of monetary policy. Most of the SNB's economists are well acquainted with this book from their studies.

But it is not only through teaching that Ken Rogoff has influenced monetary policy: his research is often also directly relevant for central banks. One of his first papers examined the short-term forecastability of exchange rates. Much time and energy has gone into such forecasts. Ken Rogoff and Richard Meese were the first to show that, in the short term, exchange rates appear to follow random walks: they stagger about like a drunkard. Over the long term, however, fundamentals dictate the level of exchange rates. Today, this is an accepted result in economics.

Another important subject of Ken Rogoff's research is monetary policy credibility and central bank independence. In a seminal paper, he showed that welfare gains are realised if central bankers are more inflation-averse than the rest of society. Central bankers should attach less weight to business cycle conditions than politicians, who, with one eye on the next election, are tempted to push unemployment down below its natural level. One conclusion is that, for the good of society, central banks need to be independent from politics; and indeed, central bank independence is nowadays the norm around the globe.

Ken Rogoff has also addressed the topic of sovereign debt on a number of occasions. One question on which he has focused is the influence of political election cycles on a country's budget deficit. Together with Anne Sibert, he has investigated the incentives that lead politicians to expand government budgets in the run-up to an election.

Finally, let me mention Ken Rogoff's book *This Time is Different: Eight Centuries of Financial Folly*, which he wrote with Carmen Reinhart. The book analyses data from financial crises in 70 countries over an 800-year time span. With perfect timing, it was published in 2009. The authors show that financial crises often follow the same pattern. First, there is a phase of exaggerated faith in the future, followed by macroeconomic disruptions after the onset of the crisis. This book is already now a classic of economic literature.

As you can see, the areas Ken Rogoff focuses on are exciting, relevant and topical. This is why the Swiss National Bank has chosen Ken Rogoff to give the inaugural Karl Brunner Distinguished Lecture, and – on behalf of the Governing Board – I would like to congratulate him warmly. The subject of his lecture is “Rethinking central bank design” – a topic that fits perfectly with the basic aim of this event, which is to bring monetary policy to a wider audience. And so, ladies and gentlemen, it only remains for me to wish you an insightful and enjoyable lecture. Please join me in welcoming Ken Rogoff with a round of applause.

Ken, the floor is yours.