Speech

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Second Karl Brunner Distinguished Lecture

Introduction of John B. Taylor

Thomas J. Jordan

Chairman of the Governing Board
Swiss National Bank

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Ladies and gentlemen

I am very pleased to welcome you to the 2017 Karl Brunner Distinguished Lecture. The Swiss National Bank established the Karl Brunner Distinguished Lecture Series to pay tribute to academics whose research is of particular relevance for central banking. With this annual lecture, we want to reach a wide audience, including, in particular, students. For this reason today's event is taking place at the ETH Zurich, which is internationally one of the most renowned academic institutions. I would like to thank the President of the ETH Zurich, Professor Lino Guzzella, for making these fantastic premises available to us.

This year, we are paying tribute to John B. Taylor. He is one of the world's foremost economists. John's work is characterised by a keen interest in highly relevant questions, from both an academic and an applied point of view. He has made major contributions to economic theory. In addition, by bridging the divide between theory and practice, he is one of few economists to have had a profound impact on economic policy and thus on macroeconomic stability.

John is also a very effective teacher. Just let me give you one example. Did you know that Tiger Woods, the famous golf professional, was his student in the introductory class at Stanford? John taught Tiger about opportunity costs. Immediately afterwards, Tiger left college and joined the pro tour. Clearly, a decision that paid off.

But back to John Taylor again. Today, he will talk about 'Ideas and Institutions in Monetary Policy Making'. Before giving him the floor, I will briefly introduce him.

Born in Yonkers, New York, John Taylor earned his A.B. from Princeton University and his Ph.D. from Stanford. He taught at Columbia University from 1973–1980 and at Princeton University from 1980–1984. And since 1984, he has been teaching and researching at Stanford.

John is the perfect economist. He is outstanding as a researcher, policy advisor and teacher. In acknowledgment of his exceptional services, he has received a number of prestigious awards for excellence in all these three fields. Let me say a few words about each of these areas, beginning with John Taylor the researcher.

His research topics range from work on rational expectations to wage and price dynamics, macroeconomics, econometrics, fiscal policy, and, of course, monetary policy. He has written an impressive number of influential articles in leading journals and important books. It is impossible to summarise his research in a few sentences. Therefore, I will limit myself to two topics.

The first topic dates back to the second half of the 1970s, when John initiated a research strategy that would have a profound and lasting impact on our profession. It was a time when the new-classical macroeconomists were claiming that monetary policy was powerless when it came to steering the economy. This challenged both the Keynesian and the monetarist views. John quickly accepted the new concept of rational expectations. However, he rejected the assumption that markets always clear, and that prices and wages are perfectly flexible. His research showed that – as a result of staggered wage contracts – monetary policy, even if anticipated, can be useful for stabilising the economy. This restored the proposition of Keynesian and monetarist models that even anticipated changes in money affect the economy.

The second topic I would like to highlight is a recurrent theme in John's research agenda. This is his deep interest in rules for monetary policy. John's research has always emphasised the importance of rule-like, systematic behaviour for monetary policy. However, by the late 1980s, many people were arguing that efficient rules would have to be very complex, and expressed severe doubts about the practicability of rules for monetary policy. So John decided it was time to write down a workable rule that was consistent with his research. The result was a simple equation to guide interest rate decisions at the Fed. The equation related the policy rate to inflation and unemployment. When he presented his rule at a Carnegie-Rochester Conference in November 1992, he did not regard it as a big deal. It turned out quite differently. His paper, published in 1993, has become one of the most cited works in macroeconomics. The rule became known as the Taylor rule.

My experience at the SNB testifies the importance of the Taylor rule. For us, the Taylor rule derives its appeal from three features. The first is its simplicity in describing the behaviour of different central banks by estimating the policy reaction to deviations from the inflation target and to the output gap. The second is its quality as a benchmark in assessing the current stance of monetary policy with respect to the historical average for a similar macroeconomic situation. And, thirdly, the Taylor rule is appealing because it sets the standard by which monetary policy is introduced in macroeconomic models for forecasting and simulation purposes.

The SNB's monetary policy focus is on maintaining price stability, and we do not follow any explicit rule for setting the short-term interest rate. However, the Taylor rule serves as an important indicator in our decision-making process that helps us to conduct a systematic policy.

Having talked about John the researcher, I would like to turn now to John Taylor the policy advisor. Time and again, John has merged research with policy making. On this account, his record is long and outstanding as well. He served as a member of the President's Council of Economic Advisors from 1989 to 1991. He was on the Panel of Economic Advisers of the Congressional Budget Office from 1995 to 2001. And from 2001 to 2005, he served as Under Secretary of Treasury for International Affairs. His responsibilities included setting up a new currency in Iraq and getting terrorist financing under control. He worked on economic reconstruction in Afghanistan, and on coordination of financial policy with the G7 countries. All in all, an impressive job. Currently, John is a member of the G20 Eminent Persons Group on Global Financial Governance, which aims at improving the functioning of the global financial architecture and governance.

No less fascinating is John Taylor the teacher in both 'quantitative' and 'qualitative' terms. On the one hand, he has given countless speeches, hundreds of lectures, written several textbooks and developed online courses. On the other hand, he is known for mixing teaching with entertainment. Indeed, John does not hesitate to use special didactic techniques to help students understand or remember material. During his classes, to cite just one example, John enters into a humorous dialogue with Adam Smith, revealing deep enthusiasm and dedication to the job. And by the way, this example is quite remarkable for someone who describes his humour “as mostly deadpan”, so that it generally takes a few lectures before his students are able to figure out when something is actually a joke.

Having talked about John’s three occupations separately, I should emphasise how well they interact and stimulate one another. Research is integrated into college lectures; government work has enabled him to understand policy constraints, while this in turn has stimulated research. “Economic research,” John once wrote, “is most exciting and productive when it is policy-driven.” Karl Brunner could not have agreed more.

Coming to the end of my remarks, I would like to repeat how profoundly John Taylor’s thinking has affected central banking. For this, he earns our deepest respect and gratitude. I am certain that his lecture will give us much new food for thought on crucial issues.

Ladies and gentlemen, please join me in welcoming John Taylor with a big round of applause.

John, the floor is yours.