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## 1998 Annual Economic Conference Opening Remarks

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Good morning, and welcome once again to the Federal Reserve Bank of Boston's 42nd annual economic conference. We are pleased and honored that each of you chose to join us here this week.

As many of you here realize, over the last several years we at the Bank have used this Conference to focus our own research, the research of other experts, and the thoughts of Conference participants on the critical issues related to economic growth and prosperity in this country and elsewhere. To that end, we have looked at technological change, and at changes in savings and investment--particularly as they might be encouraged by Social Security reform--as critical elements in long-run growth. This year we take up the short-run--that undefined but absolutely vital period of time over which monetary policy can affect economic fluctuations. As Keynes quipped, "In the long-run we are all dead" --policy makers need to worry about the short-run, and how the combination of short-runs produce the optimal long-run that has been the focus of our earlier conferences.

What causes short-run economic fluctuations--or business cycles as we've come to call them? This is an issue of some importance right now. For the best part of 15 years or so, with only about 8 months out for one of the shortest recessions on record, this country has experienced solid economic growth, ever lower rates of inflation, a reduced and now disappearing budget deficit, and ever lower rates of unemployment. Economic nirvana some would say; a problem waiting to happen according to others.

Business cycle theory suggests that unanticipated good things, or bad things, known as "shocks," happen periodically and create economic fluctuations around a long-run trend. Monetary and fiscal policy then must act to smooth the fluctuation, though I realize some in the economics profession would debate this assertion. But what economic behavior lies behind these "shocks?" More importantly, can this behavior be identified so that policy makers can anticipate an unsustainable boom, or the seeds of a downturn, before it happens rather than after? My desire for this Conference is to produce the beginnings of an understanding of the sources of cyclical fluctuations that is not only more satisfying intellectually than a simple reference, after the fact, to a "shock," but also more practical for policy makers.

Beyond this, I also hope to become better equipped to address the issue inherent in the quest to sustain the U.S. economy's current success--is the business cycle somehow dead or dying? This question is related fundamentally to our understanding of what causes "shocks." If we were confident that surges in technological progress caused booms in income and employment, then this question could be answered by investigating whether the pace or character of technological progress had changed in some way.

Similarly, it is clear that government policy plays a role in economic fluctuations, but how can policy reduce fluctuations rather than contributing to them? My own view is that the Federal Reserve's focus on first conquering inflation, and then keeping its rate of increase low, has been a critical element in stabilizing variations in the U.S. economy, but the full credit cannot go to wise monetary policy makers. We've had help. Certainly, temporary factors have been at work restraining cost growth; but have structural changes occurred as well? And will these changes make future cycles more or less prevalent?

Over the next two days, we will try to address these and a number of related issues pertaining to the sources of business cycle fluctuations. Our opening session takes us on an historical tour of business cycles around the world. Most of us are

generally familiar with recent U.S. recessions. But aside from the Great Depression, few of us know much about the wide variety of recessions dating back to the 19th century in the United States and abroad. This session presents and interprets the historical evidence on more than a century of recessions. Peter Temin will discuss the U.S. experience; Michael Bordo, Lars Jonung, and Michael Bergman will discuss the international experience. By examining a large sample of recessions from a diverse set of economies over a long period of time, we will broaden and deepen our understanding of business cycles and what causes them.

The next four sessions focus on specific candidates for causes of business cycles. In session two, Chris Sims takes up the age-old, contentious, and still unresolved issue of government policy and business cycles. Do monetary and fiscal policies cause economic fluctuations? If so, how and why? Few questions in economics generate such ferocious debate, but few are more important to answer --especially to institutions such as the Federal Reserve.

Recently, all eyes have been turned toward financial crises in Asia. Were the financial market disruptions that caused economic fluctuations in domestic and foreign nonfinancial markets foreseeable, and if so, were they avoidable? Session three features expert panelists --Rudy Dornbusch, Maury Obstfeld, and Avinash Persaud--who will evaluate the role of recent financial market disruptions in global economic fluctuations and help us draw lessons from this experience.

Tomorrow, the first two sessions examine relatively new ideas about sources of business cycle fluctuations. Susanto Basu will begin by evaluating the idea that fluctuations in productivity through technological changes cause business cycles. A key factor preventing definitive assessment of this hypothesis has been the vagueness surrounding what are often cavalierly called "productivity shocks." This session will more precisely identify the specific, observable features of production and technology that may cause fluctuations.

Next, Scott Schuh and Robert Triest address the idea that microeconomic restructuring and reallocation cause business cycles. During the 1970s and 80s, the U.S. economy experienced tremendous restructuring and reallocation. Recent research suggests that sharp increases in job reallocation are a regular feature of recessions. But still unresolved is whether reallocation and restructuring are causes or consequences of recessions. This session provides new evidence about the process of job reallocation to help us better evaluate this relationship.

No doubt you sense how difficult and ambitious the task is for our participants. Perhaps even more difficult is the task for the distinguished panelists in our final session. Our panelists, economic leaders in both the public and private sectors, are charged with evaluating the hypotheses advanced during the Conference and with drawing out the implications for effective policy making.

A trademark feature of our annual economic conference that we are particularly proud of is the lively debate that ensues during the general discussions after each presentation. Agree or disagree, we encourage all Conference participants to contribute to our understanding of this vital issue. Working together we can take a step closer to knowing what causes business cycles.

Another trademark feature of our Conference is the wonderful opportunity to enjoy the beauty and serenity of Cape Cod. I hope you will all take advantage of the amenities and exciting activities at this lovely resort and throughout the surrounding area. Thank you for attending our Conference, and have a great time.

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