REMARKS

BY

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I first knew Ted thirty years ago, although we had not actually met, and I don't think he knew me. I was a student at California State University in Northridge, California, and had carefully avoided Ted for my time there. He was Chairman of the Department at the time, and had this fearsome reputation as being a very tough teacher, and until the final semester of my senior year I had successfully avoided having to take a class from him.

However, in that final semester I still required 8 units to graduate. There were only two classes that would qualify for my degree, and Ted was teaching one of them. So, I could no longer avoid him, and signed up for his class in the spring semester of 1963. I think that they called it Advanced Monetary Theory. There were only about 6 or 7 students in the class, and initially, it looked like it was not going to be a tough class at all, mainly because Ted did not assign a text book and he didn't even have a reading list. All he required was that we read and discuss two essays during the course of the whole semester. We spent the first half of the semester discussing Warren Smith's Financial Intermediaries and Monetary Control and the second half of the semester we went page by page, sometimes paragraph by paragraph, or sentence by sentence, through Milton Friedman's Quantity Theory of Money -- a Restatement. Ted, at that time, showed extraordinary patience in taking his small number of students through these classic articles.

During the late spring, as the year was drawing to a close, I first learned something about the "Random Walk" in a personal regard, even though I did not know at that time that there was an economic theory by that name.

I had signed up to go into the Air Force that summer, but Ted talked me out of it. Instead, he persuaded me to go to graduate school for a year or so and study economics, and in particular to go to UCLA to learn microeconomic theory from Armen Alchian and economic methodology and how to do research from Karl Brunner. It was already too late for normal admissions, and I probably didn't have the record to get in anyway, but Ted called somebody, and I was accepted into UCLA for the fall semester.

Early in that first few weeks of graduate school, one day I happened to be in the Department office and the secretary was posting a notice on the bulletin board that Professor Brunner needed a research assistant. I started to copy down the information and the secretary told me that I really didn't want to do that - that it would be a highly foolish thing to do because of Karl's reputation among the students. Well, it turned out that I applied anyway because I had heard of this man from Ted, and it seemed like it might be a good idea to be a graduate research assistant. I interviewed with Karl, but I didn't meet any of his three criteria for the job. It happened that the day I interviewed, Ted and Rachel were on campus for a department seminar and Karl talked to Ted, and Ted persuaded him to take a chance with me even though my statistics was lousy, my calculus was almost nonexistent, and I didn't know how to program the computer - all of the things that Karl required.

Karl did hire me to be his research assistant and, at that point Cliff Stone and I started working together with Karl and Allan on the Patman Committee study of 1964. It was at that time that we learned about the

Federal Reserve - that there was such a thing as the Federal Open Market Committee - and such ideas as pegging the Federal Funds rate to influence economic activity.

I then moved on to St. Louis, and in 1971 had returned to the Research Department after a period of exile doing other things within the Fed. Michael Keran, who was our senior international economist, took a leave of absence to work for the U. S. Treasury Department. So, I called Ted and invited him to take a leave from Cal State Northridge and spend a year as a "visitor" at the St. Louis Fed. He and Rachel showed up that summer. It was really a great deal for us in the Fed. It was sort of a two-for-one arrangement because we paid Ted a salary, and with Rachel, all we had to do was give her an office and she would show up every day with Ted. So, we got both of them for the cost of one economist. Not long after they arrived, I was sent on a leave of absence of my own, so for most of the year that they spent at the Bank, I was not around. When I did return, in the summer of '72, they were getting ready to head back to California, I found that they were extremely popular with the staff - that Ted would go office to office on a daily basis and talk with people about their Research and prod them into doing interesting things. But, he was also very popular with Darryl Francis, President of the Bank, and gained his confidence. Furthermore, Ted and Rachel had developed a good relationship with the academic community in St. Louis. Even though Ted and Rachel were both very good economists, they somehow were able to develop a personal friendship with Hyman Minsky, something that I was never able to do.

Well, as things happen, Mike Keran returned from the Treasury Department and within a short period of time told us that he would be leaving to go to San Francisco to be the Director of Research. So I called Ted again, and asked him to come back and this time make it permanent. They sold their house in Northridge, and Ted and Rachel, and Bruce and Adam, all moved to St. Louis where they remained to this time. A couple of years later, 1975, one day Darryl Francis suggested that I should follow-up on an invitation to apply for a job in the private sector. Of course, when your boss suggests that you should get another job you tend to take him serious. What really was going on was that Darryl planned to take early retirement a few months later. He knew there were going to be some major changes in the Bank, and he thought it was probably a good idea for me to make some changes also, and take the opportunity to move my career in a different direction. That turned out to be a very critical time at the St. Louis Fed, because Arthur Burns was determined to change the direction of the Research Program at the St. Louis Fed when Darryl left.

It should have happened that Gene Leonard, the First Vice President, was appointed President of the Bank. Gene was an economist, he ran the Memphis Branch of the St. Louis Fed, he was First Vice President, he had spent a year in Washington as an assistant to Arthur Burns, so he had all the credentials that you would expect of somebody to become President of the Fed. But Arthur was determined not to let that happen because he was very unhappy with the St. Louis Research Department. Burns would go around the country making these

really great speeches about putting out inflationary fires, but the St. Louis Fed was saying that he was an arsonist. So, in order to try and change the Research Program, he appointed Larry Roos, President. Larry had been a county supervisor and a politician and had run for Governor at one time. As President of the Bank, Larry had pledged that he would change the Research Program of the Bank to regional economic analysis or some such thing. It was at that point that Ted, the teacher, took over and in the same patient way that he had taught his students at Northridge, he taught this new President, who knew absolutely nothing about economics -- in fact, was even hostile to the Research Program of the St. Louis Fed. But Ted was able to teach him the fundamentals as he had his students at Cal State Northridge. Within a year Larry Roos became a very visible, vocal advocate of the views of the St. Louis Fed Research Department.

I have been asked a number of times over the years, why St. Louis? Why did St. Louis have the Research Program and stand out from other Reserve Banks. I think it has to do with a number of things. Certainly there was a role of Darryl Francis and Homer Jones in getting it started. I don't know what was really necessary and sufficient, but I think probably the most important thing was the consistent application of microeconomic principles to the issues that a Central Bank should be concerned with. It was this foundation that made the Research Program here so strong, independent of who the particular President or the various economists were. Over the last 20 years, Ted Balbach has been very consistent in his adherence to that

foundation of microeconomic principles, and he made the program here at the St. Louis Fed what it has been the last twenty years. We all owe Ted a debt of gratitude. On behalf of all of us, thank you.

cc: Ted Balbach File