# John Taylor's Contributions to Monetary Theory and Policy

*Welcome Remarks at a Federal Reserve Bank of Dallas Conference*

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Thank you, Mr. Chairman, for kicking off what will be a productive and rewarding two-day discussion. On behalf of the Federal Reserve Bank of Dallas, I want to offer each of you a hearty Texas welcome. We are grateful to all of you for coming to spend time with us, to share your insights and wisdom, and to honor our esteemed colleague John Taylor.

Chairman Bernanke gave a very nice background on John's work and the significance of his ideas. There is little I can add, except to say that among those characteristics that all of us value so much about John are his decency and likeability. He is a good man, as well as a great scholar and policy aficionado. John, I am especially grateful you are chairing the advisory board of the Dallas Fed's newly launched Globalization and Monetary Policy Institute, if only selfishly because it provides me and my colleagues with a vehicle for continuing to learn from, and work with, you.

John Taylor has divided his career between academia and government service, and both spheres owe him a debt of gratitude for having done so. It is, I think, appropriate that this conference honoring John be hosted by a Federal Reserve Bank, because John's interest in monetary policy has been longstanding and has pervaded the research questions he has addressed. Fundamentally, John has demonstrated that it is possible to do serious economic research that takes monetary policy's role in the economy seriously. His efforts in this direction did much to restore a community of interests between academic and Federal Reserve economists at a time when the theoretical foundations underlying traditional monetary policy analysis were crumbling.

Everyone here is familiar with how, back in the late 1970s and early 1980s, John and a few others embraced the notion that households and firms are forward-looking in their decisionmaking and intelligent in forming their expectations, but rejected the view that wages and prices adjust instantaneously to their market-clearing levels. It is these nominal frictions that give policy short-run leverage to influence the real economy. This approach to macroeconomics has grown in popularity to the point that it has become dominant inside and outside the Federal Reserve System. It has also stimulated interest in the nuts and bolts of how labor and product markets work. We have several papers in this conference that dig deep into these questions, and I am looking forward to hearing what the authors have to say about the implications of their research.

Combine rational expectations with forward-looking, maximizing households and firms, and suddenly the private sector's behavior depends on the entire expected future path of policy. John was a pioneer in thinking about monetary policy in this new, rich and complicated setting. This conference will explore some of the literature that John inspired. We will also convene a distinguished panel later today that will help us understand how the new ways of thinking that John pioneered have influenced actual policy here and abroad.

Before we begin the discussions, I want to thank those of you who came great distances to join us today. Otmar Issing, Frank Smets and Volker Wieland all came over from Europe to be with us. *Danke schön meine herren*. Guillermo Ortiz came up from la Ciudad de México. *Muchas* *gracias muy amigo mío*. *Bienvenido*. We have attendees from the Norges Bank, Banque de France, the Bank of Japan and the strong currency haven of the Bank of Canada, and, to prove that good people are willing to travel long distances to honor John, from the Reserve Banks of both Australia and New Zealand. Wherever you have come from, we appreciate your presence.

I especially wish to thank the gentlemen who poured their blood, sweat and tears—and a bit of the Dallas Fed's treasure—into organizing this conference: Lawrence Christiano, Robert Leeson, Andrew Levin and our own Evan Koenig. They deserve a special pat on the back. And last, but certainly not least, John, thank you for agreeing to this conference. We are honored to have the privilege of honoring you.

We have an exciting couple of days ahead of us. Without further ado, let's get started with the paper by Robert Leeson, Francesco Asso and George Kahn.