FEDERAL RESERVE BANK *of* ST. LOUIS
CENTRAL TO AMERICA'S ECONOMY®
WWW.STLOUISFED.ORG

Welcoming Remarks by James Bullard, President and CEO
The 2015 Homer Jones Memorial Lecture
Federal Reserve Bank of St. Louis
June 3, 2015

Welcome to the Homer Jones Memorial Lecture.

It was June 1990. The average U.S. household owned five radios; the "worldwide web" was a term associated with either spiders, spies or organized crime;[1] the first season of *The Simpsons* recently ended; the inflation rate was just under 4 percent; and *the Maestro*—Alan Greenspan—deftly ruled the roost at the Fed. At just that moment, Athanasios Orphanides took a position as an economist at the Board of Governors of the Federal Reserve System.

While it is true that shortly afterward, the U.S. economy entered a recession—never mind that! Athanasios in 1990 began a remarkable career that has emphasized both outstanding research and excellent policy advice. As he rose through the ranks of economists at the Board of Governors, he took his role as an insider on U.S. monetary policy seriously and used it to provide insight both to policymakers and to academics. To get an idea of the flavor of his work, consider his 2004 *Journal of Money, Credit and Banking* paper titled "Monetary Policy Rules, Macroeconomic Stability, and Inflation: A View from the Trenches." It was trench warfare indeed, and Athanasios was on the front line.

Fast-forward to May 2007. Athanasios departed the Federal Reserve. A Greek Cypriot, he was appointed to the governorship of the Central Bank of Cyprus. Cyprus at that point had just won entry into the eurozone, and one of the first tasks Athanasios faced was to transition the island economy to the new currency. Membership in the eurozone also meant that Athanasios became a member of the powerful Governing Council of the European Central Bank, the European counterpart of the Federal Open Market Committee. He held this position until 2012, long enough to help shape the euro area response to the deepest economic and financial crisis since the 1930s and to deal directly with the 2011-2012 European sovereign debt crisis, vestiges of which remain with us today.

[1] See http://www.infoplease.com/year/1990.html.

Given this unusual career history, it may well be that Athanasios Orphanides is the only person on the planet who has attended Federal Open Market Committee meetings as well as European Central Bank Governing Council meetings. Accordingly, he can provide a unique perspective on global monetary policy.

This is the 26th annual Homer Jones Memorial Lecture. The lecture series began in 1987, shortly after Homer's death. The lecture series has persisted, first, because of the initial efforts of Homer's former colleagues and friends at the St. Louis Fed and elsewhere in the community, and, second, because of the long-lasting support of many people and organizations. These include the St. Louis Gateway Chapter of the National Association for Business Economics, Saint Louis University, Southern Illinois University at Edwardsville, the University of Missouri at St. Louis and Washington University in St. Louis.

Homer Jones is often described as "Milton Friedman's teacher." This is because Jones taught Friedman when Milton was an undergraduate at Rutgers University in the early 1930s. At that time, macroeconomics was in its infancy, and monetary policymakers struggled to come to grips with their newfound powers—and their limitations. Eventually, Milton and Homer, each in their own way and employing different methods, would help to fundamentally transform the science and practice of monetary economics and monetary policy.

Jones had come to the Rutgers faculty after studying at the University of Chicago, where he was a student of legendary Chicago professor Frank Knight. Also on the Rutgers faculty at the time: Arthur Burns, future chairman of the Federal Reserve.

According to Friedman, Jones was one of the primary influences in Friedman's choice to study economics, as opposed to mathematics or statistics. In Friedman's 1976 reminiscence, he says Jones opened his eyes "to the broader reaches of economics and to the beauties and intricacies of economic theory."[2]

Milton Friedman went on to graduate study in economics at Columbia, and in 1958 Homer Jones came to the St. Louis Fed as director of research. Homer Jones became the founding father of the tradition of rigorous economic research, not just at the St. Louis Fed but for the Federal Reserve System as a whole. Homer's original efforts to make the St. Louis Fed a leader

[2] See Friedman, Milton. "Homer Jones: A Personal Reminiscence." *Journal of Monetary Economics*, November 1976, *2*(4), pp. 433-6.

in monetary research and statistics bear an imprint today on an array of Bank products, including FRED, mobile FRED, ALFRED, GeoFRED, CASSIDI, FRASER and IDEAS.

The most important legacy of Homer Jones is the St. Louis Fed's unwavering commitment to rigorous, independent research. Independence of views continues to be a critical component of U.S. monetary policy. The Fed's ability to absorb and be open to multiple viewpoints helps prevent groupthink and leads to superior monetary policy and ultimately to better macroeconomic performance. Those of us in the Federal Reserve System who believe that the ability to question and re-examine conventional wisdom leads to better policy outcomes owe a great debt to Homer Jones.

We are pleased and honored today to welcome Athanasios Orphanides to give the 2015 Homer Jones Memorial Lecture. He has moved on from sunny Cyprus and is currently Professor of the Practice of Global Economics and Management at the Massachusetts Institute of Technology's Sloan School of Management. Orphanides is also a Research Fellow of the Centre for Economic Policy Research, a Senior Fellow of the Center for Financial Studies, a Research Fellow of the Institute for Monetary and Financial Stability, and a member of the Shadow Open Market Committee.

Athanasios has published extensively in professional, peer-reviewed journals and co-edited three books. Much of his work has focused on the difficulty of making good monetary policy choices in real time. The difficulty of interpreting real-time data has often led to questionable monetary policy decisions, according to his research. For example, Orphanides has attributed the Great Inflation of the 1970s to policymakers' misreading of trends in productivity in the early 1970s. His widely-cited professional publications include co-authored work with current San Francisco Fed President John Williams, "Imperfect Knowledge, Inflation Expectations, and Monetary Policy";[3] an *American Economic Review* article titled "Monetary Policy Rules Based on Real-Time Data"; and a *Journal of Monetary Economics* article titled "The Quest for Prosperity without Inflation." He also co-authored an important historical article that I highly recommend, "The Reform of October 1979: How It Happened and Why," with David Lindsey and Robert Rasche in the St. Louis Fed *Review*. He obtained his Ph.D. in economics from MIT.

Please join me in welcoming Athanasios Orphanides, who will speak to us today about "Fear of Liftoff: Uncertainty, Rules and Discretion in Monetary Policy Normalization."

[3] Published in *The Inflation-Targeting Debate*, Ben S. Bernanke and Michael Woodford, editors, University of Chicago Press, 2005.