

# Remarks on John Taylor's Contributions

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It is a great pleasure to have John Taylor here with us today. He is of course one of the world's most influential academic commentators on monetary policy and, I might say, one whose judgements most (if not all) of us on the SOMC usually agree with to a very great extent. One of his most notable accomplishments is, of course, the development of the well-known "Taylor Rule" as a guideline for the conduct of monetary policy. Almost every one in this room is, I suspect, at least somewhat familiar with this proposed policy rule. Also, many of us will know that it was first presented in November 1992 at a meeting in Pittsburgh of the Carnegie-Rochester conference on public policy, and then published in the resulting conference volume, no. 39, in the spring of 1993.

Now, at that conference meeting, as it happens, I was the appointed discussant of John's paper. And if you have ever read or looked at my discussion you will probably have found it to be not very perceptive and not nearly as praiseful as the paper certainly deserved. Accordingly, I would like now to take a few minutes to provide an extremely belated explanation/excuse for this evident lack of appreciation, in what follows.

At the time I was a member of the Carnegie-Rochester Conference's advisory board. One of our duties was to suggest fruitful topics for future conferences. In that capacity, at the board's planning meeting for the November 1992 conference, some months earlier, I had suggested that a paper should be commissioned that would develop some method or criterion that would permit an outside researcher to determine whether an actual central bank's actions over some significant span of time should be regarded as resulting from a policy *rule*, rather than being "discretionary". This suggestion met with approval by Allan Meltzer and the other participants, and then we quickly agreed that the best person to write the paper would be John Taylor – who Allan subsequently contacted and signed up for the conference.

Well, as it turns out, the paper that John delivered did not actually do this. Instead it proposed and (very effectively) promoted a specific rule. So at the time of the conference, I, evidently, must have been somewhat put off by the change in focus. (This change might have been arranged with Allan; about that I do not know.) In any event the presented rule – the Taylor Rule – was very well designed and clearly deserves the

great attention and respect that it has received over the years.<sup>1</sup> Most—indeed, probably all—of us would almost certainly judge that what he did was more valuable than what was proposed. (In fact, one might judge that the proposed task was infeasible.) It has been the outstanding example of an activist rule that takes into account, in a reasonable way, the slightly conflicting goals of low inflation and healthy output/employment levels.

Indeed, reflecting on developments in monetary policy analysis, I have come to the view that John's (1993) paper has been socially productive in a way that has perhaps not been widely recognized. I will try to explain this view briefly. At the time of its presentation, previously suggested rules by academics (e.g., Friedman, Meltzer, and myself) had all been expressed in terms of the monetary base or some other aggregate as the instrument variable that could be directly controlled by a central bank. Both officials and economists in central banks, by contrast, thought of monetary policy in terms of interest rate control. Partly as a result of this, there was in 1993 very little interaction between academics and central banks. But then Taylor's paper showed academics by example that a sensible activist policy could be formulated in terms of an interest rate instrument and at the same time showed central bankers—by means of its striking diagram indicating that actual U.S. policy over the years 1987-1992 (a recent period that had featured very good macroeconomic performance)—that a maintained *rule* could lead to good policy choices!

Partly in consequence, I would suggest, over the next few years there came to be much more interaction between academic and central bank economists. Indeed, it became the case—or so I have claimed—that a reading of papers from several major international conferences held in the late 1990s would not enable one to identify which of the papers were authored by academics and/or which by central bank researchers! (It might be noted that most of the SOMC's members have worked for both academic and central bank employers.)

Without taking any more time I would like to just mention a few more basic contributions of John's to the analysis of monetary policy. One is the formulation of the "Taylor Principle," which says that an interest rate rule should call for a greater-than-point-for-point response to ongoing inflation. Also relevant is his technical analysis of the role of sticky prices and wages in macroeconomic systems and also his extensive

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<sup>1</sup> I say this even though I have conducted two studies that suggest that the nominal GDP rule, with a monetary base instrument, that I proposed in (1988) would have performed somewhat better.

work with quantitative multi-country models. Finally, one must mention his production over the years of great students, as well as great articles, columns, book chapters, and books.

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