President's Message

It is a special privilege to introduce the Twenty-Fifth Annual Economic Policy Conference of the Federal Reserve Bank of St. Louis, held October 19-20, 2000. The privilege is special because we dedicated the conference to Darryl Francis, who is one of my personal heroes.

Darryl Francis was at the helm of the St. Louis Fed when policy went awry in the 1960s and 1970s. We owe him a debt of gratitude for having the vision to see that research and open debate would succeed in strengthening monetary policy. Francis had the courage to carry his ideas for improving policy—ideas emphasizing the importance of controlling inflation and of limiting money growth to achieve that objective—to the nation when they were not popular. There is no more fitting way to open this conference than for me to read a tribute to Darryl Francis written a few months before the conference by Milton Friedman.[1]

> When Darryl Francis became president of the Federal Reserve Bank of St. Louis in 1966, the conventional wisdom in the academy and in the Federal Reserve System was overwhelmingly Keynesian—fiscal policy, not monetary policy, was the major recourse for economic stabilization, and could be used to fine-tune the economy. The only role for monetary policy was to keep interest rates low to stimulate investment; inflation was largely a cost-push phenomenon. The 1966 *Annual Report of the Council of Economic Advisers* is an amusing and distressing example. A 31-page chapter on "Prospects for Cost-Price Stability" has only two passing references to monetary policy and does not even contain the word "money." Of the seven pages devoted to the "Outlook for Cost-Price Stability in 1966," six deal with guideposts! The careful reader of the 186-page report will have to wait until page 176, in an historical chapter on experience under the employment act, to find the first explicit recognition that there is any relation between monetary policy and inflation.
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> Within the Federal Reserve System, monetary policy was being driven by multiple objectives, of which inflation was not necessarily the most important, and was being conducted largely in terms of the esoteric "tone and feel of the market," with minimal attention paid to the quantity of money.
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> By 1976, when Darryl completed his decade as president of the bank, stagflation of the seventies was in full flood. It was being increasingly recognized, inside and outside the academy, that inflation was a monetary phenomenon, and that monetary policy, not fiscal policy, would have to be the first line of defense. In 1975, Congress passed Concurrent Resolution 133 which required the Fed to specify targets in terms of monetary aggregates.
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> Darryl Francis played an important role in this revolutionary change in views. Already in November 1967, a year after Darryl took over as president, *Business Week* noted that "the Federal Reserve Bank of St. Louis has become a maverick, questioning both the current monetary policy of the System, and the basic premises on which that policy is based." It went on to say that "as early as last May, Darryl R. Francis, president of the St. Louis Bank, parted company with his fellows on the Fed's policy-setting Open Market Committee and urged a turn to tight money—a step the committee has yet to take."
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> For the next decade, at meetings of the Open Market Committee and in more than 100 public speeches, Darryl pounded away at the defects of fine-tuning, the treacherousness of using money market conditions as the primary guide to monetary policy, and the importance of taking a long view, particularly with respect to inflation. These were not popular views and it took real integrity, conviction, and independence of character to press them as forcefully as he did. His words were backed up with data provided by his research staff. Their influence was spread by the flood of publications coming from the Bank. As I wrote in 1986 in an obituary tribute to Homer Jones, "Between them, Homer and Darryl Francis converted the St. Louis Bank into by far the most important unit in the System. For the

[1] Personal communication, 2000.

first time since the days of Walter Stewart, Winfield Riefler, and Randolph Burgess in the twenties, monetary research from within the System began to influence academic research and thinking. For the first time, a bank publication, the *Review* of the Federal Reserve Bank of St. Louis, began to be cited regularly in the academic journals." The pattern that was then established has continued. The Federal Reserve Bank of St. Louis continues to be a major contributor to the literature on monetary theory and policy.

Emphasis on monetary aggregates has not lasted. The Taylor rule, not monetary aggregates, is the talk of the central banker today. Yet the battle against fine-tuning and for steady growth in monetary aggregates has left its mark. Fine-tuning is today more a term of opprobrium than of praise. No one doubts that monetary policy, not fiscal policy, must be relied on to prevent inflation or that the prevention of inflation is the main task of central bankers. Moreover, however shielded monetary aggregates are from popular view, they are a major source of concern for central bankers, and I venture to predict that they are destined to resume in the not too distant future a more prominent role as a guide to monetary policy.

During Darryl's decade, I and my colleagues at Chicago were fighting the same battle. Darryl and St. Louis were strong, effective, and dependable allies. That is why it is a great pleasure and honor for me to pay tribute to the important role Darryl Francis played in the long-term fight against inflation. As his elder by 21 days, may I say, well done, young man.

William Poole
President and Chief Executive Officer
Federal Reserve Bank of St. Louis