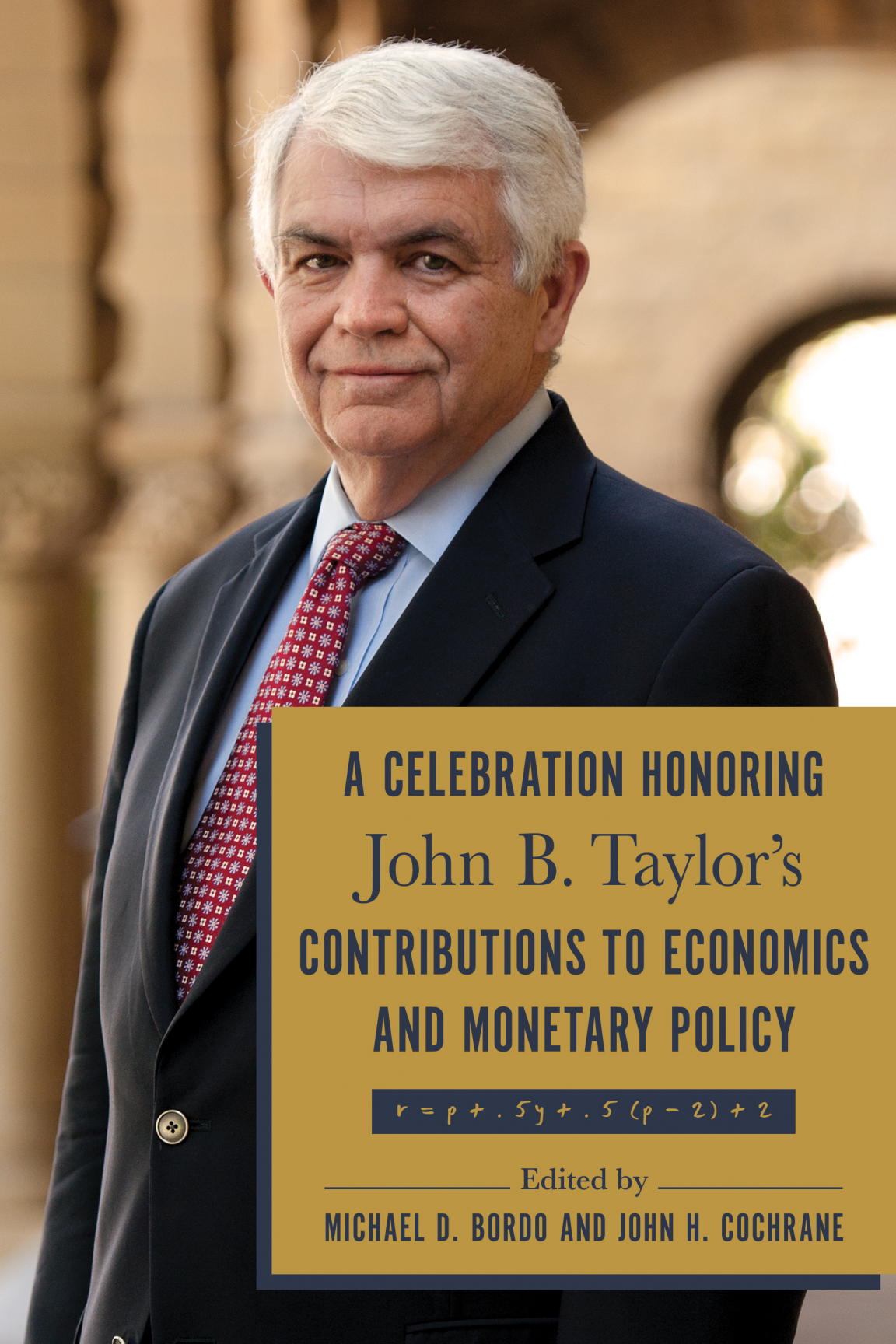

A CELEBRATION HONORING John B. Taylor's CONTRIBUTIONS TO ECONOMICS AND MONETARY POLICY

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Edited by

MICHAEL D. BORDO AND JOHN H. COCHRANE

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John Taylor's Contributions to Economics and Monetary Policy

Michael D. Bordo, John H. Cochrane, and Jonathan S. Hartley

John B. Taylor is one of the greatest macroeconomists of the past half century. He developed and articulated the "Taylor rule," a systematic and strategic approach to central bank policy, recognizing that central banks set interest rates and not money supply. With this framework, Taylor inherited from Milton Friedman the mantle of the most influential academic writer on monetary policy. And Taylor's approach, unlike Friedman's monetary targeting approach, has been widely incorporated into central bank thinking and policymaking, at least as an ideal that central banks acknowledge even as they may deviate from it. Taylor also made fundamental contributions to the underlying economics of monetary policy and to the empirical evaluation of monetary policies, as well as to international economics, fiscal policy, and other issues. Like Friedman, he also has been a prominent exponent, to popular as well as academic audiences, of the value of free markets, limited government, and free people.

In this introductory essay, we summarize the main themes in John Taylor's work as well as incorporating the views expressed in the chapters by the conference participants.

Macroeconomic Theory and Modeling

John had an illustrious academic career before the Taylor rule was even a twinkling in his eye, though with hindsight we can see the ideas forming. In the late 1970s, macroeconomics underwent the rational expectations revolution, which also included an emphasis on intertemporal decision making (meaning that people and businesses make decisions about now versus next year, not each moment in isolation) and rigorous economic underpinnings, in place of the static and ad hoc modeling used in IS-LM analysis, along with the spread of time series econometric modeling.

John was a central part of this revolution. Harald Uhlig in his chapter in this volume covers some of John's early and essential work, including Phelps

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and Taylor (1977) and Taylor (1979, 1980) on nominal contracts. In the Lucas (1972) model, only unanticipated money affects output, and hence any predictable monetary policy has no output effect. (Predictable monetary policy still affects inflation. The work is often misquoted as saying that predictable policy has no effect at all.) As Uhlig summarizes the quandary, "Old Keynesianism was dead. But the belief that forecastable parts of monetary policy can affect the economy was not. . . . Many thought that the conclusion was an implication of rational expectations itself, making the latter assumption unpalatable for some. Enter John Taylor."

Looking forward many years, the Taylor rule is all about the systematic, hence somewhat predictable, component of policy. The Taylor revolution says that the most important part of monetary policy is this systematic component—how interest rates react systematically and predictably to inflation and output. The effect of unpredictable "shocks" is less important. We should think of good Fed policy as a good set of systematic interest rate responses to variables such as inflation and employment, not trying to measure (e.g., via vector autoregressions) the effects of interest rate shocks and then trying to affect the economy by Fed-induced interest rate shocks.

Taylor's famous solution to the rational expectations conundrum was to add staggered contracts. Workers and firms agree periodically to a wage, which lasts for a while. And they don't do it all at the same time. With this little price-setting friction, even if workers and firms are completely rational at the time they agree to contracts, monetary shocks can have persistent output effects and systematic monetary policy can affect output. Sticky *prices* and wages can generate monetary non-neutrality with rational expectations, and, unlike one-period sticky *information*, sticky prices allow a persistent non-neutrality and a non-neutrality of expected policy. Uhlig writes, "This is a powerful idea. One can and should argue that it rescued rational expectations by freeing it from being tied to the untenable prediction of monetary policy ineffectiveness while rescuing its clean logical underpinning."

Lucas never specified how long a "period" lasts. Outside of a strict monetarist context in which publication of the monetary aggregates is sufficient to distinguish aggregate from local demand, it may be plausible that information frictions do last a long time. However, until recently nobody has questioned the perhaps premature conclusion that information frictions do not produce long-lasting output effects of monetary policy, so we leave that standard conclusion alone here.

The basic idea to add an explicit source of price or wage stickiness to a rational expectations model has been the foundation of monetary economics ever since (also see Fischer 1977). It is the central idea of the "New Keynesian" approach

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that has been dominant in the academic analysis of monetary policy for forty years. Later work came to use the Calvo (1983) formulation of sticky prices rather than Taylor's overlapping contracts but largely, as Uhlig emphasizes, for its analytical tractability: "John B. Taylor's formulation strikes me as more realistic and more relevant, though Calvo's approach is easier for calculations." The Calvo model has many empirical shortcomings, and Uhlig points to recent empirical work suggesting that perhaps something like staggered contracts should have a revival.

Taylor (1975) also stands out as an early and influential paper that studied learning and convergence to rational expectations. While people are learning, systematic monetary policy has real effects. This effort presages the enormous work on learning that followed.

In this volume, Robert King covers John's influential late-1970s work on optimal policy in detail. As he notes, "Rational expectations meant that systematic policy is desirable." We might go further to say such policy is "essential." With rational expectations, policy can only be described as a rule. People's decisions today depend on what they expect policy to do tomorrow, so they will infer a rule from patterns of behavior and react accordingly. There are only good and predictable rules versus bad and unpredictable rules. King's summary of Taylor (1979, 1981, 1982) is insightful, explaining why this work was so influential.

John wrote a model that included several ad hoc elements, including an equation for output that depends on money supply and expected inflation and an accelerationist Phillips curve anchored by past inflation. Microfounded dynamic stochastic general equilibrium (DSGE) models with sticky prices would not appear for another twenty years. We make progress one step at a time. Too much purity and, especially at the time, one could not capture important policy trade-offs. But he introduced rational expectations in well-considered places. He investigated the money supply rule using optimal control techniques. That's not easy. Optimally controlling a system that anticipates and adapts to patterns in your control inputs is (or was then) difficult.

John found that a constant money growth rule is suboptimal. Instead, as King quotes Taylor, "The efficient rule is unlike the monetarist rule in its countercyclical reaction to the state of the economy . . . but surprisingly similar to the monetarist rule in not accommodating inflation." King suggests Taylor's lesson "is that there is a nearly efficient policy rule that offsets demand-induced output movements while not accommodating inflation movements." You can see the beginnings of the Taylor rule, including a response to output.

Optimal control questions often lead to black-box answers. As King put it, "It can be challenging to explain the nature of policy rules derived from optimization problems, but John's analysis is remarkable in its analytical transparency

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and its link to policy." This is a key characteristic of John's research. Many people run optimal control exercises on large macroeconomic models, but the results are often not interpretable outside the specific models and do not produce robust usable advice for central bankers. Milton Friedman long acknowledged that constant money growth would not be optimal if one really knew the structure of the economy and policymakers could implement complex optimal controls in real time. He distrusted both models and policy execution. John was influential because his work was *useful*. King also uncovers a key quote from Taylor (1982): "Nominal interest rate targeting could easily result in accommodation of inflation, if nominal interest rates were not permitted [to] rise with the inflation rate." You see the beginnings of the Taylor rule and economists' recognition that they really have to think of monetary policy in terms of interest rate targets.

The Taylor Rule: Theory, Empirical Work, and Policy Impact

Of course, Taylor will be always remembered for his eponymous rule. (John is too humble to have named the rule after himself. Mickey Levy and Charles Plosser [2025] give a lovely history of the rule and its influence in the private sector, and Levy was at least an early baptizer.)

Richard Clarida writes in his chapter of this volume, "The two most consequential papers in monetary economics written over the past seventy-five years are Friedman (1968) and Taylor (1993a)," the latter being Taylor's most influential exposition of "the rule."

The Taylor rule seems simple: The Fed should raise the interest rate by somewhat more than the rate of inflation and in response to higher output. However, the core of John's argument, and the reason for its influence, is not just this simple rule.

First, John showed empirically that this rule fits well the Federal Reserve's policy during periods of good outcomes, for example the 1980s, and that bad outcomes were associated with policy that deviated from the rule, such as during the 1970s. He showed this in 1993, and in later work showed that the pattern continues afterward and in other countries. The Taylor rule started as an empirical observation. Many others have expanded on this empirical work, including Clarida, Galí, and Gertler (2000) and Nikolsko-Rzhevskyy, Papell, and Prodan (2014). Monika Piazzesi's chapter in this volume shows how the Taylor rule aids financial market economists to forecast future short-term interest rates, and John Lipsky in his remarks reports that he tried to put that forecasting ability into practice at Salomon Brothers in 1994.

Second, John never advocated that the Fed should follow a fixed or mechanical rule. Rather, the Taylor rule is a reference point. Central banks will

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always deviate in response to exigencies such as a financial crisis or a pandemic. Robert Barro's chapter views some deviations from the Taylor rule in severe crisis situations as a form of contingent rule, like the suspension of gold convertibility during major wars, rather than as a policy error. Once the emergency passes, monetary policy returns to the Taylor rule. The expectation of such a return has the same beneficial effects that an expectation of return to gold-standard parity has. John recommends that central banks start with the Taylor rule and understand and explain their actions as deviations from the rule. Doing so stabilizes expectations of how central banks will behave in the future. And expectations are the key to modern macroeconomics. Even in the breach of the rule, central banks now describe "anchoring expectations" as one of their main tasks.

Third, the Taylor rule is robust. The Taylor rule is not the optimal policy in any specific model. Optimal policies, such as those Taylor computed early in his career, respond to every variable available in complex ways that are hard to describe and evaluate. Moreover, models differ, and optimal policies differ too. The Taylor rule instead produces nearly optimal results in widely different models, models that differ in very fundamental basic issues (see, among others, Levin, Wieland, and Williams 1999, 2003; Cochrane, Taylor, and Wieland 2020; Cochrane 2024).

The Taylor rule has also had a profound impact on economic theory. For decades, macroeconomists faced a conundrum: What is the nominal anchor? What fundamentally determines the level of prices? IS-LM models describe somewhat mechanistically how inflation might rise or fall from what it was last year, but they do not answer these fundamental questions. Monetarism provides an answer: The supply of money ultimately determines the level of prices. But central banks set interest rates, not money supplies. For decades, economists kept writing models in which the Fed controls the money supply, though if one just looks out the window, one sees that the Fed sets interest rates. Well, the models couldn't handle that.

In economic theory, it turns out that raising the nominal interest rate systematically with inflation can provide the missing answer, allowing, at last, a complete economic theory of inflation with interest rate targets. Larry Christiano in his conference remarks explains how satisfying the Taylor principle provided a unique equilibrium solution in the New Keynesian model that John Taylor helped pioneer. John Cochrane in his chapter describes this history. Having a theory that is not completely at odds with institutional practice is awfully useful. Answering "How should we raise and lower interest rates?" with "You should target the money supply" is not useful.

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The Taylor rule, as explained by Edward Nelson in his chapter, was a bridge between the tradition of policy rules based on monetary aggregates, associated with Milton Friedman and the monetarists, and the actual practice by the Fed and other central banks that used interest rates as their policy tool. The Taylor rule provided a compromise between the two traditions while also advocating a reaction function that helped create a revival during the 1990s of economic research on monetary policy rules.

Taylor was also influential because of his deep policy engagement. Writing one theory paper and moving on seldom leaves much impact in the practical world. We won't even try to summarize the voluminous essays, testimony, speeches, op-eds, interviews, and trips to central banks around the world by which John patiently elaborated, applied, listened, and explained the rule, its application, and the underlying ideas of rule-based policy. Take a glance at his CV.

John also continued his empirical and theoretical work. In a series of papers written over twenty years (e.g., 1999, 2016a, 2016b, 2017, 2019), Taylor focused on the distinction between rules-based policies (some variants of a Taylor-type rule) and non-rules-based policies, i.e., discretion. He then argued that the years following 2000 were characterized by deviation from rules-based policy. This began with the Fed's pursuit of a "too low for too long" interest rate setting. (Some of the Fed's motivation to keep rates unusually low was fear that the United States would fall into a Japan-style deflation and stagnation situation following its financial meltdown in 1990. Whether that fear was realistic is debatable, especially given the later experience of the long zero-bound era.) This departure from rules-based policy was followed by the Global Financial Crisis of 2007–9 and then by the slow recovery from 2009 to 2016, when both inflation and real output performance became significantly worse.

Not least, John inaugurated and steadfastly ran the annual Hoover Monetary Policy Conferences and other related conferences, each of which produced an edited volume of contributions (Taylor and Woodford 1999; Koenig, Leeson, and Kahn 2012; Bordo and Taylor 2014; Taylor and Uhlig 2016; Bordo, Cochrane, and Seru 2018; Cochrane and Taylor 2020; Bordo, Cochrane, and Taylor 2023, 2024, 2025; Bordo et al. 2025). The conferences were not entirely devoted to Taylor rules, but rules-based, strategic monetary policy was a constant theme.

International Macroeconomic Policy Interdependence

John Taylor has long been interested in macroeconomic policy interdependence. Should countries each follow a Taylor rule—setting interest rates in

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response to domestic inflation and output but ignoring exchange rates, trade balances, or the actions of foreign central banks? Or should monetary policy, especially among smaller and more trade-dependent nations, also take account of these other variables—perhaps even including direct exchange rate intervention as well as interest rate responses to exchange rates? Should countries coordinate their monetary policies? Should they fix or float their exchange rates? Later, John examined the international spillovers of quantitative easing.

Robert Hodrick's chapter summarizes this work via a review of Taylor's (1993b) book on international monetary policy. In it, John summarized and extended a long line of research from the 1980s, including Taylor (1985, 1989) and Taylor and Carlozzi (1985).

As Hodrick summarizes, John approached the normative questions posed above by developing state-of-the-art theoretical models of the macroeconomic environment. He estimated the equations of the models using the most advanced econometric methods. He isolated the structural shocks in each equation and their distributions and then simulated the models under alternative policy rules to find which rules minimize the variances of output and inflation.

In retrospect, John's style is distinctive and creative. His models combine rational expectations, nominal contracts, and impressive model solution and estimation techniques with some remaining ad hoc elements, for example an aggregate demand curve. He did not follow the full general equilibrium purity that at the time characterized the real-business-cycle movement and a decade later would characterize the presentation of New Keynesian DSGE models. But that approach could not, at the time, talk about monetary policy at all. Even the purer models developed in later decades struggle to produce commonsense baseline results such as the dynamic effects on output, inflation, and exchange rates of an increase in interest rate targets or the money supply (see, for example, Hodrick's figure 11.1). And without those touchstones, central bankers would not begin to follow more complex normative advice. John's work here and later was always as pure as possible while retaining that practical usefulness.

Broadly speaking, as Hodrick reports, John came to several conclusions. Fixed exchange rates, which require a common interest rate, produce more volatile output and inflation than floating exchange rates, if interest rates in each country respond sufficiently to domestic inflation. Neither policy coordination—setting Taylor rule coefficients in concert with others—nor responding to exchange rates or other central banks' interest rates improve macroeconomic performance. This view has become very influential. Many central

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banks around the world at least say they follow inflation targets and largely stay out of exchange rates or responses to each other's policies.

In this work you can also see the Taylor rule being developed in the international context before it really emerged in the domestic context in Taylor (1993a).

John kept up his interest in international monetary economics. Taylor (2001) investigates the same questions using a DSGE model with strong micro foundations and now explicitly using his 1993 rule. He shows that following the Taylor rule, which only responds to domestic inflation and output, is sufficient for an open economy without including responses to or consideration of the exchange rate. This paper opposed a growing literature in the 1990s that suggested open economies with floating exchange rates should include the exchange rate in their interest rate rules. John argues that exchange rates are already indirectly incorporated into the Taylor rule as they affect inflation and output. An additional direct response does not help.

John continued his application of rules-based policy analysis to the evolving international scene. He argued that the early 2000s deviations from rules-based policy laid the groundwork for much of the turmoil that followed, both around the world as well as in the United States. Based on econometric analysis of international monetary policy interdependence, Taylor (2013) shows that the low interest rates and quantitative easing (QE) followed by the Fed starting in 2008 led to spillover effects on other advanced countries, as well as some emerging-market economies, via the floating exchange rate and an open capital account. This important paper is one of the clearest pieces of empirical evidence that QE has any effect at all on interest rates, inflation, or output. Thus, a cut in the federal funds rate or quantitative easing, by depreciating the dollar, threatens real performance in other countries. This spillover led the Bank of Japan to follow the Fed and cut its policy rate. Moreover, John shows that the exchange rate spillover effects are amplified by a multiplier process in which each country reacts to the other countries' policies. This process is reminiscent of the competitive devaluations of the 1930s.

Emerging-market economies hard-hit by this process—and also with the experience of the 1990s East Asian currency crisis in mind—would turn to capital controls and exchange market intervention, policies that Taylor (2017) deemed inefficient.

The solution to the "Great Deviation" that Taylor proffered in many papers was for each country to follow domestic rules-based policies—in other words, to set a common inflation target at 2% and to follow a Taylor rule responding to domestic output and inflation. John emphasizes a common 2%

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inflation target. He gave the same prescriptions for the emerging-market economies as for the advanced countries. Further, he posited that the International Monetary Fund (IMF) should aid these countries in their pursuit of rules-based policies rather than its usual advocacy of interventions like preventative and discretionary capital controls.

After the Global Financial Crisis, when policy rates were close to zero, Taylor in a series of papers criticized the Fed and other central banks for their use of quantitative easing and forward guidance as deviations from rules-based policy.

John Taylor on Fiscal Policy

John also considered the effects of alternative fiscal policy strategies. The analysis in Taylor's (1993b) book, discussed here by Robert Hodrick, emphasizes the distinction between permanent and temporary and between anticipated and unanticipated changes in fiscal policy. Taylor (2000) extends the distinction between rules and discretionary monetary policy to fiscal policy. As in the case of monetary policy, he makes the case for fiscal policy rules, especially automatic stabilizers. In part, such rules make it easier for central banks to follow monetary policy rules since they don't have to think about offsetting unusual changes to fiscal policy.

In several contributions, Taylor analyzed the effects of three key fiscal policy strategies implemented during the financial crisis and the COVID-19 pandemic. "Fiscal stimulus" made a heady return in the 2008 policy world, largely based on classic IS-LM "multiplier" thinking unaffected by the intertemporal revolution that started in the 1970s, and John mounted one of the most influential critiques. Taylor (2008) showed that the one-time tax rebates of 2008 had little impact on personal consumption expenditures, as posited in earlier work on the permanent income hypothesis by Friedman (1957) and Hall (1978) but contrary to the Keynesian view motivating the stimulus. Valerie Ramey's chapter, using newer techniques and data, backs up Taylor's position. Taylor (2009a, 2009b) found similar results for President Obama's American Recovery and Investment Act (ARRA) "stimulus" plan. Taylor (2011) provides a comprehensive empirical review of the three fiscal stimulus packages of the early 2000s, finding that they had little if any effect. Cogan et al. (2010), using a New Keynesian model, refuted the Obama administration's Old Keynesian multiplier analysis (Romer 2011), which simply assumed government spending multipliers greater than one. More recently, Taylor (2021) showed that the government stimulus packages during the COVID pandemic, as in the earlier episodes, had little impact on the real economy.

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John Taylor on the Global Financial Crisis and the Slow Recovery

John Taylor was one of the earliest commentators (along with Raghuram Rajan and Robert Shiller) to predict the Global Financial Crisis of 2007–8. He was a prescient critic of the Federal Reserve's and administration's policies throughout the crisis and in the following slow recovery from 2009 to 2016.

In a presentation at the Jackson Hole conference, Taylor (2007) explained the housing boom of 2003–6 that burst, triggering the events that led to the crisis in late summer 2007, as a consequence of the Fed's pursuit of a "too low for too long" interest rate policy in the early 2000s. This episode was a deviation from the rules-based policies that the Fed had followed in the previous Great Moderation period. Taylor shows that the fed funds rate was significantly below the Taylor rule rate between 2003 and 2006 (see chart 1 in Taylor 2007). This, he posited, provided the fuel to ignite the housing boom, seen in a large rise in house prices and residential investment.

Taylor shows that the collapse in housing prices that occurred in 2006 contributed to a rising delinquency rate, leading to the subprime mortgage crisis that gave rise to the financial crisis and the Great Recession (2007–9). A counterfactual simulation shows that had the Fed followed a rules-based policy by keeping its policy rate close to the Taylor rule rate, promptly raising interest rates in response to the economic recovery and inflation, the housing boom would have been significantly smaller, thereby lessening the likelihood of a crash. John Taylor's views on the financial crisis were controversial at the time and were never acknowledged by the Federal Reserve. In 2010, Ben Bernanke, Fed chair during the crisis, rebuffed Taylor's finding that the Fed kept rates too low for too long, arguing that the Fed's extended monetary ease played at most a minor role in the housing boom.

In the years of slow growth after the 2008 crisis, John Taylor was a dogged critic of Fed and administration policies. In an influential paper, Taylor and Williams (2009) tackle a crucial issue for interpreting the financial crisis: Did the persistent rise in interest rate spreads between the overnight fed funds rate (OIC) and the three-month London Interbank Offered Rate (LIBOR) during the crisis represent a demand for liquidity, rather than fear of insolvency? This is what the Federal Reserve believed at the time and used to justify its lending under the Term Auction Facility (TAF) in December 2007. (In that facility, the Fed offered term loans to banks against collateral and without the usual "stigma" of borrowing from the Fed, to encourage the banks to use the borrowed money to buy assets.) Fear of insolvency is less worthy of intervention.

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To run this race, Taylor and Williams estimated a no-arbitrage model of the term structure. That model incorporated measures of liquidity (TAF dummies) and of counterparty risk (IOS-LIBOR spreads and LIBOR Repo spreads). Using daily data from January 2 to August 8, 2008, they found that the TAF had little impact on spreads, refuting the illiquidity hypothesis. But they found that solvency measures strongly affected spreads. This finding suggests that introducing the Fed's TAF was unnecessary.

In a series of papers over the next ten years, John Taylor criticized the Fed's and administrations' actions throughout the financial crisis and the following slow recovery period. Taylor (2011, 2019) criticized the bailouts of Bear Stearns, AIG, and others as increasing uncertainty and leading to moral hazard—the continuing expectation of bailouts. Unlike most economists and commentators, based on his analysis of credit spreads, John did not attribute the worsening of the crisis in October 2008 to the collapse of Lehman but rather to the botched introduction of the Troubled Asset Relief Program (TARP) facility in September, which greatly elevated policy uncertainty. (The September TARP proposed that the Treasury buy mortgage-backed securities directly, to raise asset values and thereby rescue insolvent institutions. The TARP was repurposed in October to save large banks directly.) He later attributed the slow recovery period after the financial crisis to the Fed's pursuit of QE and forward guidance as significant deviations from rules-based policy.

Taylor argued that the departure from rules-based policies was also followed by other central banks in this period and that US policy mistakes were transmitted abroad, as described above. Had the Fed and the others followed his rules-based approach and returned to the policy regime of the Great Moderation, John argued repeatedly and persuasively, the world economy would have been greatly improved.

John Taylor in Government

In addition to his career as a researcher and to his policy engagement, John had a varied and influential period of government service. This part of his life is less familiar to most, and the conference let us all know about some of his remarkable achievements.

John served as senior staff economist to the Council of Economic Advisers (CEA) from 1976 to 1977 under Presidents Ford and Carter, and as a CEA member from 1989 to 1991 under President George H. W. Bush. Michael Boskin's chapter discusses how he and Taylor tried to introduce fiscal policy rules into the ongoing analysis of the problems of that era.

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Later, John served as Under Secretary of the Treasury for International Affairs from 2001 to 2005 for the George W. Bush administration. These were eventful years following 9/11. John used his expertise as an economist to create a team of "financial warriors to handle the financial side of the tumult in this period" (Taylor 2007). He elucidated ten rules related to his research on monetary policy to guide his work on financial aspects of the War on Terror. He and his team dealt with the economics of the occupation of Iraq after Saddam Hussein's ouster; the creation of a new currency for Iraq; the debt left by Hussein; the financial reconstruction of Afghanistan after the US invasion; the Argentine currency and debt crisis of 2001–2; reform of the IMF, especially the adoption of collective action clauses in sovereign debt negotiations, as discussed in Barry Eichengreen's chapter; and reform of the World Bank to make its lending more market oriented, among a variety of other issues.

John also served as a senior economic adviser to Bob Dole's presidential campaign in 1996, to George W. Bush's presidential campaign in 2000, and to John McCain's presidential campaign in 2008. He was a member of the Congressional Budget Office's Panel of Economic Advisers from 1995 to 2001.

Sebastián Edwards opened his remarks by describing his and John's service as advisers to Arnold Schwarzenegger as governor of California, and he pointed to John's *Global Financial Warriors* book, which covers many of John's amazing experiences. He started with the humorous—John Taylor in a suit, chaperoning a C-130 cargo plane full of cash going to Baghdad. He moved on to the serious, including John's widespread reputation throughout Latin America, his eventually successful fight against capital controls, and his resolution of Latin American debt problems with collective action clauses rather than bailouts.

In her remarks, Condoleezza Rice, Secretary of State while John was at Treasury, described John's role in tracing and stopping terrorist financing in the wake of 9/11. But Condi's best (and least known) recollection went back to the late 1980s and the collapse of communism. John, with Mike Boskin at CEA, came up with the plan to save the Polish currency when everyone else was out of ideas.

> You also have to be practical. You simply can't tell the Poles that they've just thrown off forty-five years of communism and they're going to have a trade mission from the United States of America [this was the main proposal from the Commerce Department]. . . . You also have to be cre-

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> ative and adaptive. John and Mike in that moment were creative and adaptive. You have to be a leader. You have to be willing to take a risk because for the president's CEA to step in where the Treasury dared not tread, I think, was something of, shall we say, a career-risking opportunity. And most importantly, you had to be trusted. And John Taylor was in all of those examples, whether taking the dinar to Iraq, creating the terrorist-financing resolution in the Security Council, or deciding that, yes, we could do more for Poland. John was trusted by the president, by his colleagues, by foreign governments, and by our allies.

In her conference paper, Anne Krueger writes in detail of John's role in US actions to support Iraq's initial reconstruction, antiterrorism financing policy, the Argentine crisis, sovereign debt, and exchange rate policy. She concludes, "He deserves as much credit for his bureaucratic career as he does for his academic one."

In his remarks, John Lipsky, who was at the IMF, explained in detail how John helped to reform the IMF and its support for countries in trouble. Lipsky also describes many details of John's terrorist finance initiatives and the stabilization of Latin American debts.

In his conference remarks, Peter Fisher also explained just how difficult it was for John to avoid bailouts and implement collective action clauses. He praises John's steadfastness: "There are a few people in Washington who will tell you what they believe and that they are going to fight like hell for what they believe, and then they do. They stick to their principles. Most just get up in the morning and stick a finger in the air to see which way the wind is blowing." Not John.

Measures of Influence

John Taylor's highly cited papers in his early work include Taylor (1979) and Taylor (1980) on sticky wages and prices, which led to the canonical New Keynesian DSGE model. Taylor's citation count and influence grew substantially after the publication of the original Taylor rule paper (Taylor 1993a). (See figure 1.1.) Taylor (1999) continued these trends.

Taylor's work has been highly influential in monetary policy circles as well as in academic publications. The number of "Taylor rule" or "John Taylor" mentions in Federal Open Market Committee (FOMC) transcripts, plotted in figure 1.2, has grown since the original 1993 paper. Since 2011, "Taylor rule" or "John Taylor" is mentioned at least thirty-seven times in any given

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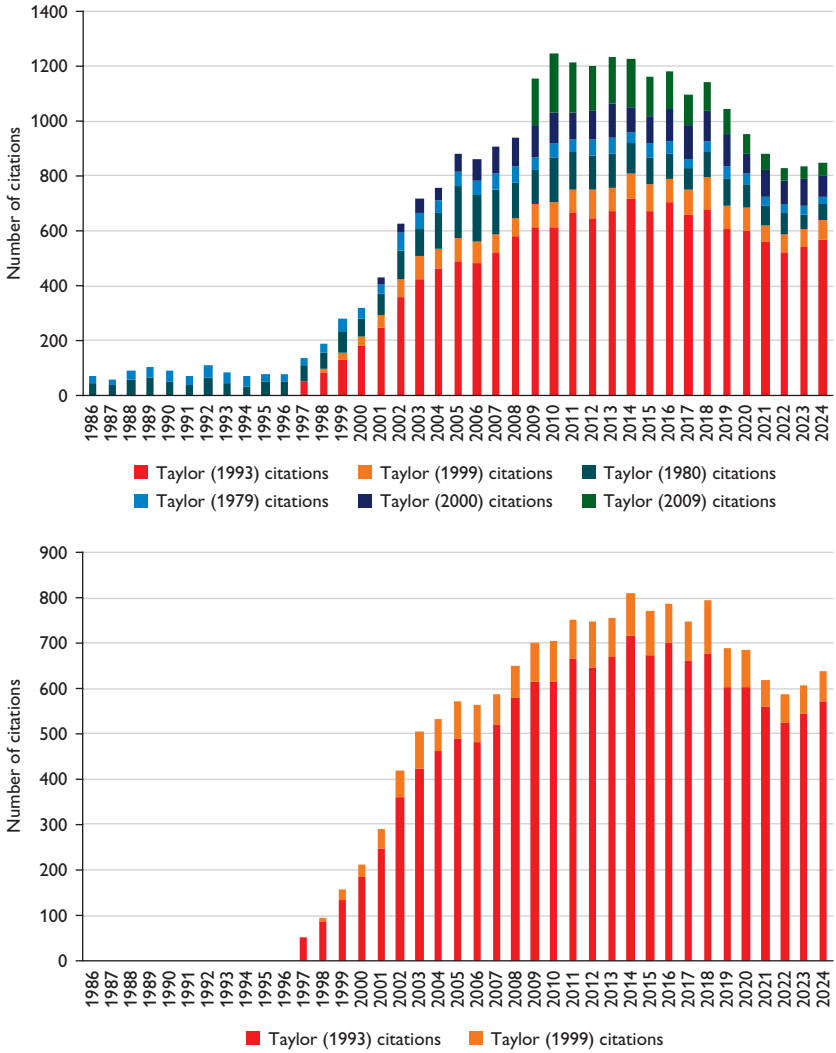

Figure 1.1. John Taylor's most-cited papers

Source: Google Scholar

year, and often much more often, such as 168 times in 2012 alone. According to the March 19–20, 2019, FOMC meeting transcript, then–Federal Reserve Bank of St. Louis President Jim Bullard remarked, "John Taylor has certainly been crazy successful in his promulgation of the Taylor rule."

John Taylor has also written prolifically in opinion-editorial pieces for popular news outlets, true to Hoover tradition, followed by senior fellows

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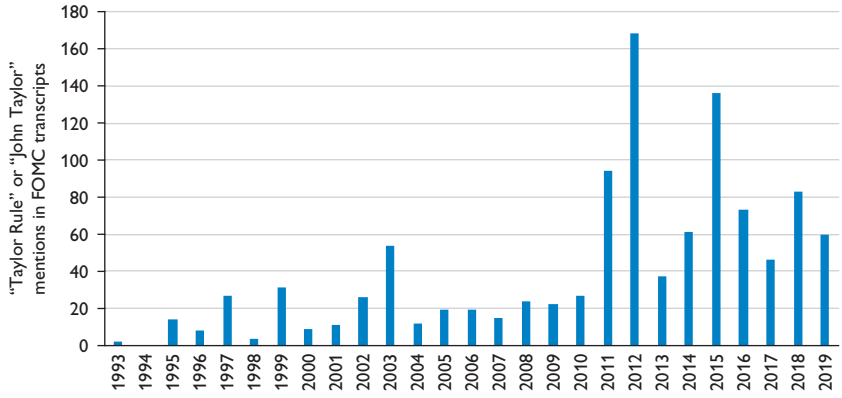

Figure 1.2. Number of "Taylor rule" or "John Taylor" mentions in FOMC transcripts

Source: Federal Reserve FOMC transcripts

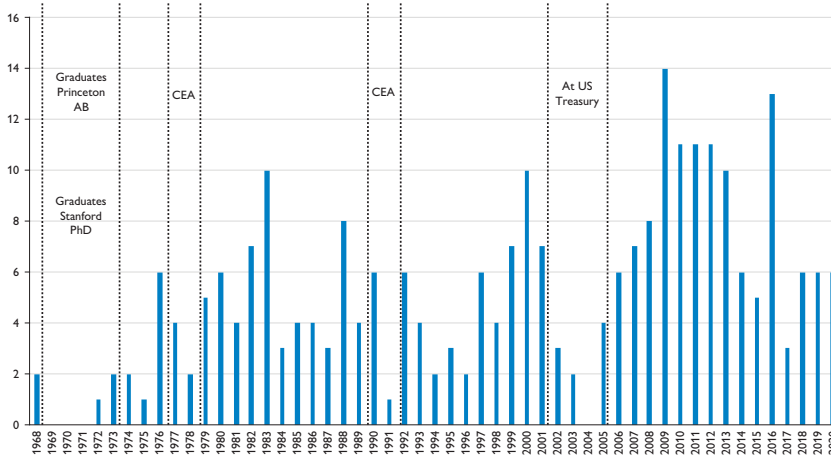

Figure 1.3. Number of John Taylor's academic papers by year

Sources: Google Scholar; John Taylor personal website (https://web.stanford.edu/~johntayl/)

including Milton Friedman, Thomas Sowell, and George Shultz. Since 1968, in addition to two hundred sixty-eight academic papers, he has written over one hundred op-eds, including fifty-three for *The Wall Street Journal*, thirteen for Bloomberg.com, and ten for the *Financial Times*, many appearing in the aftermath of the Global Financial Crisis. See figures 1.3 and 1.4.

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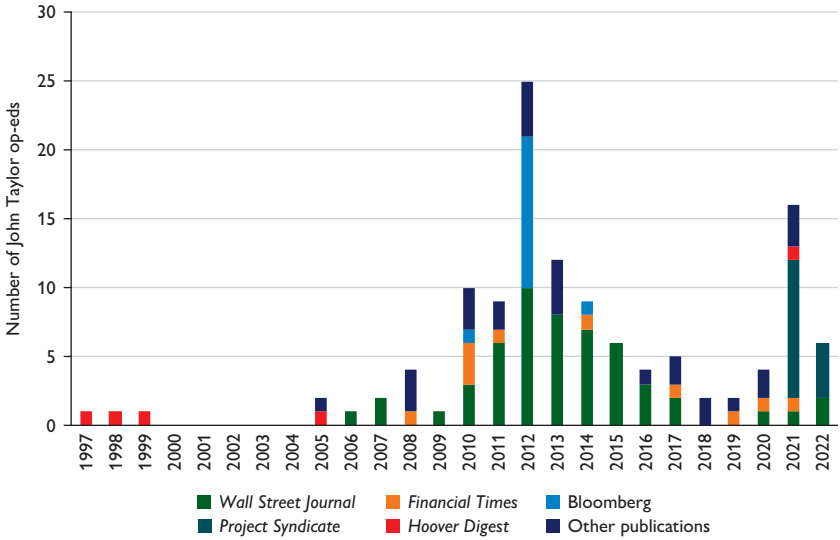

Figure 1.4. Number of John Taylor op-eds by year

Sources: John Taylor archives; John Taylor personal website (https://web.stanford.edu/~johntayl/)

John's academic and popular writings have had widespread influence on fiscal and monetary policy and financial regulation, as well as general economic policy. Many are enshrined in books. Among them, we highlight *Choose Economic Freedom* (Shultz and Taylor (2000), *First Principles* (Taylor 2012), which summarizes John's overall perspective on how free markets and economic freedom are critical for economic prosperity. *Bankruptcy Not Bailout* (Scott and Taylor 2012) is also notable: In addition to his critique of interest rate and fiscal stimulus policies, Taylor has been a leading critic of financial bailouts and a prominent advocate of reform to the bankruptcy code instead. John argued for a new provision of that code (chapter 14) to allow insolvent banks to enter bankruptcy effectively.

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