

Speech by Mr William R White, Economic Adviser and Head of Monetary and Economic Department of the BIS, at the opening dinner of the BIS Conference in Honour of Palle Andersen Basel, 2 December 2007

Elsebeth Andersen, other invited guests, ladies and gentlemen

It is a pleasure to welcome you all here to this conference dedicated to the memory of Palle Andersen. The chosen topic, "Globalisation and population trends: implications for labour markets and inflation", would have been of enormous interest to him. Sadly, this is perhaps the least of many reasons why we must regret that Palle is not here among us tonight. I will make reference in a moment to the wide range of topics that Palle was interested in, but supply side issues, and in particular the inflation process, were at the very core of his work over many years. And, of course, the topic is given heightened significance by the fact that we are fast approaching the 50th anniversary of the seminal paper published in that area by Bill Phillips.

It is a further pleasure to thank all of you who have come to this conference, particularly those who have prepared papers or are discussants. But in addition, let me also thank those of the BIS staff who have put together this "labour of love", and I do not think that is too strong a term. In particular, let me mention Dubravko Mihaljek, Philip Turner and Már Gudmundsson, each of whom worked closely with Palle (though in different ways) over many years. And finally, of course, thanks to Marcela Valdez-Komatsudani, who was in charge of all the logistics.

I am pleased to have been asked to say a few words about Palle tonight. To the participants in this conference who were his friends, and I see there are many here tonight, some of my positive observations about him might seem self-evident. I hope that they are worth repeating nonetheless. And for those of you who did not know Palle, or knew him only by academic reputation, let me introduce you to a complex and endearing character who contributed a lot to macroeconomics, to the formulation of better economic policies, to the more harmonious functioning of the Monetary and Economic Department of the BIS, and to me personally. He was a big man, in every way but size. Let me say something about each of those contributions in turn.

Contributions to economics

A very preliminary assessment of Palle's published work – that is, work published under his own name – yields a list of over 40 substantial pieces. As one who has "lived the life" of an international civil servant, I find this very impressive, since one has also to consider (as I will do shortly) the hundreds, if not more, of notes he drafted for internal analysis or to be published under the "brand names" of the OECD and the BIS. Moreover, the quality of that work is attested to by the fact that one of his products won the David Davidson Prize in 1971, and another was on the shortlist for the Amex Bank Review Prize in 1993. And, as a further sign of quality, in rereading his work I found some recent, rather good thoughts of mine. Unfortunately, I found them in publications that predated mine by a decade and sometimes even more.

Palle's interests were wide, and he published single articles on the demand for money, household wealth and aggregate savings, macroeconomic forecasting performance and a whole host of other topics. But the big themes that engaged him, and to which he kept coming back, were three in number. First, as already mentioned, anything to do with the supply side of the economy, but especially the inflation process. Second, the issue of fiscal policy and its relation to external imbalances. And third, the determinants of economic growth: in particular, the possible effects of economic openness, macroeconomic policies and, of most recent interest to him, financial reform and financial structure.

Now, the single observation I wish to make about all three of these analytical areas is that they defy easy conclusions. Consider the inflation process: should we begin by assuming traditional Phillips curves or rather the New Keynesian approach? Further, considering that each focuses on domestic sources of inflationary pressures, should we reject both on the grounds that they have been overtaken in recent years by global forces driving inflation? Consider next the role of fiscal policy: is the effect of stimulative fiscal policy large (traditional Keynesian view), small (reflecting the insights of Milton Friedman), zero (Ricardian equivalence), or actually negative as expected future deadweight losses associated with higher taxes cause interest rates to rise today? And finally, consider the issue of economic growth. The fact that the unexplained element in regressions continues to exceed the explained bits, and by a hefty margin, makes one point very clear: we economists know less than we would like to, and probably less than we think.

In the face of this continuing ignorance on all three fronts, Palle's enthusiasm was boundless and therefore inspiring to all his colleagues, but especially the younger ones. He was always open to new ideas and approaches, which perhaps explains why he co-authored so many pieces (including one with me). And, to the end, Palle continued to maintain the high standards of a typical European academic. He loved data, but hated data mining, and was always suspicious of inductive rather than deductive methods. His approach is well summed up in a quote from a paper he once wrote with Willy Fritz: "Faced with the choice between using data to provide a structure for economic theory and using theory to put structure in the data, we lean toward the latter".

With this sentiment, I am wholly in agreement.

In speaking of Palle's contributions to economics, I would be remiss if I did not mention their international flavour. Having conducted research for many years at the OECD and then the BIS, it was perfectly natural that international comparisons would play a big role in his work. Of course he had his favourite countries. Being a Dane, he maintained a lifelong interest in the Nordic countries, and the Governors of the Norwegian and Icelandic central banks always tried to get his views when they were in Basel for meetings. Indeed, he was more than pleased, honoured even, when he was invited shortly before his retirement to act as a visiting professor at the University of Aarhus, where he had received his PhD. And finally, speaking as a Canadian, I am pleased to note that Palle had a special affection for Canada and Canadians and was an avid reader of the Toronto *Globe and Mail* (the sport section as well as the business section). In this context, it bothers me a lot that he freely admitted that he was interested in Australia even more.

Contributions to policymaking

Palle's potential for contributing to policy issues was recognised early, when he left Aarhus to join the OECD and become head of the desk responsible for the United States, Norway and Denmark, and then became head of the General Economics Division not long after. In that capacity he contributed to innumerable documents and provided services to two working groups known as WP2 and WP4. Palle once told me that he could have managed to service WP1 as well, but, unfortunately, there wasn't one. Then, in 1983, Palle moved to the BIS

where, in effect, he became the General Economics Division of the Monetary and Economic Department, all by himself. It was, and still is, a very small shop here.

Yet there are often misconceptions about this, as made evident by what is now a famous BIS story. At a dinner a number of years ago, a visiting central banker asked the BIS to write a paper on the prospects for the oil market. As quick as a flash, Andrew Crockett (then the General Manager of the BIS) said he would get our oil department on it immediately. There was a pause, and then someone asked how many economists were in the oil department. Again quick as a flash, Andrew said "about 40". And then there was another pause as those at the dinner seemed by their silence to accept this as fact. Astonished, Andrew then had to point out that there were hardly 40 economists in the entire BIS, and they had to cover everything: real, nominal, financial and, not least, oil.

How could such a misconception arise? In part, it was because of the enormous output of Palle, and of course other colleagues, over the course of the years. I could not begin to count the ad hoc notes he prepared for meetings of Governors, Deputy Governors and economists. But I would draw attention to one of the last things that Palle did. A few years ago, he and Karen Johnson of the Federal Reserve Board held the pen for a study into global imbalances, and the particular role of Asia in that regard. It was a sensitive issue, given our new shareholders from emerging market countries, and had to be treated in a sensitive manner. And it was. That paper, in fact, provided the basis for a number of discussions among central bank officials where analysis was kept central and finger-pointing was wholly avoided. I am particularly pleased to say that this paper will now be published, along with the other documents from this conference.

Palle was also personally responsible for the principal macroeconomic monitoring paper given to the Governors at their regular meetings in Basel. This paper, now bimonthly, describes what has been going on in the world economy, asks why, and always finishes with pertinent questions to promote discussion. Its quality was attested to by Mervyn King, who went over to Palle at the end of one meeting to say, "I am really impressed by how much insight you can compress into only six pages". That was quite a compliment from a man who is known to be both very smart and very demanding. And perhaps even more astonishing, Palle produced more than 80 such papers, over more than a decade, and I cannot recall one case where a Governor found a factual error.

Finally, and this ties back into my earlier comments about Palle's research findings, he was never dogmatic in his policy analysis. He could always see the two sides of every argument and the way changing circumstances might alter the balance between them. This was a great quality to have in working for a cooperative institution like the BIS. Our mission, after all, is not to tell people what to do but rather to help our clients understand better both their own options and the options open to other central banks. Palle did this splendidly.

Contributions to how MED functioned

I want to finish with a few words about Palle's personal qualities, qualities which contributed materially to the functioning of MED and to the pleasure that I took personally in the work that I did at the BIS. For all of the praise that I have heaped upon him, Palle was not an easy man. He could be overtly intolerant of those he considered as too big for their boots, time wasters, or interested in their own advantage at the expense of the best interests of the department. And his disdain for modern management methods, consciousness-raising, performance appraisals and the like presented a problem for those, like me, who were responsible for such processes.

But Palle got away with it, because everyone knew that he was both extraordinarily conscientious about his work and extraordinarily kind to almost everyone. On many occasions Palle came to me to tell me that someone on the staff was ill, or overworked, or

needed a talk for motivation. And I know for a fact that he often offered such help himself, and sometimes to the most unlikely persons. It was characteristic of him that the last note he ever prepared for the BIS was one for the Global Economy Meeting in January – a meeting that Palle (having just retired) would not attend. His rationale was simple: the note had to be prepared over the Christmas season, and the much younger member of staff who would otherwise have to do it would be much better occupied at home with his family.

Well, that is all I wish to say. I hope you all now understand better why we are having this conference in Palle's honour. And I hope you will find it a fruitful occasion professionally as well, as Palle would certainly have wanted.