



Remarks at the Conference in Memory of John Leahy

At the University of Michigan

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*The views expressed today are my own, not necessarily those of my colleagues on
the Federal Reserve Board of Governors or the Federal Open Market Committee*

Good afternoon, and thank you Kathryn.

While I remain deeply saddened by the tragic loss of John Leahy, I am honored to be here today, with all of you, to celebrate John's life and his many, many contributions – to our lives, to economics, and to the field of monetary policy. And it is always gratifying to be back at the Ford School, and the University of Michigan.

I'd like to begin my remarks with a few memories of John, before turning to some of the ways his work, as a macro theorist, has been quite impactful for thinking about monetary policy. I then look forward to the conversation with Kathryn and Allen. But first – even though I will not speak about economic conditions, my outlook, or current policy perspectives, I'll still give my standard disclaimer: The views I express do not necessarily reflect those of the other Fed policymakers at the Board of Governors or the Reserve Banks.

I met John in September 1990, when he first joined the Harvard economics faculty, and we were colleagues for two years. I remember thinking that he was the definition of “bright-eyed and bushy tailed,” which was quite refreshing. I had joined the Harvard economics faculty six years earlier – and had just wrapped up a year in Washington at the Council of Economic Advisors (CEA) as the international macro senior staff economist. And John wanted to talk about...*everything*: how to navigate being a junior faculty member at Harvard, why the CEA had championed an exchange rate stabilization fund for formerly planned economies, where to get the best food in Harvard Square, how the (S,s) models he worked on with Andrew Caplin were relevant for my work on realignments in the European Monetary System, and much more. He was great to talk economics with – whether about teaching or research projects. (And it was fun to have another colleague who looked as young as I did.)

Fast forward 25 years, to 2015. I was dean of the Ford School here at Michigan, working with the Department of Economics to fill the Allen Sinai Professorship of Macroeconomics and Public Policy. Allen will talk about his vision for the Sinai Chair in a moment, but I'll just say that John was the perfect match for the Chair. His addition was exciting for both the Ford School and the economics department, and the Chair was the perfect way to recruit John to Michigan – something we had aspired to do for some time. It was also wonderful to welcome Aditi and their family to the university and Ann Arbor community.

John was an exemplary colleague – not only a gifted teacher, thoughtful mentor, and impactful researcher, but also a senior faculty member who would “step up” to help make the

institution a better place for students, faculty, and staff. John was a very special human being – kind, thoughtful, and generous – with a fabulous sense of humor. It was great to have him on board.

I'll now turn to how John Leahy's academic research has been influential for the field of monetary policy, and valuable to me as a Fed policymaker.

As you all know, John's research was primarily in macroeconomic theory – we heard about many dimensions of this in earlier sessions today. However, I'll note that the connections between highly technical work and policy are not always evident. As many of you know, John's academic roots were inter-disciplinary. His Williams B.A. combined History and German with Math. And he got an M.S. in Public Policy from Georgetown before heading to Princeton for his Ph.D. in economics. So yes, he was a deep, mathematical thinker. But the subjects that excited him intellectually were much broader than that. In my experience, he saw this as a two-way street. For instance, he leveraged insights from psychology to better understand expectations formation. He also cared about applications of his research insights – including for monetary policy.

And John was a great communicator, adept at explaining complex ideas in accessible ways – to those in his field, and beyond. A case in point is his 2016 “Sinai Lecture” on Wishful Thinking and Expectations, delivered in this venue as part of his professorship installation. His ability to communicate broadly – and willingness to take the time to do so, is part of how and why John's work was broadly influential. And I'll note that he was very connected to the Federal Reserve System throughout his career – co-authoring with Fed economists, and spending time at several Reserve Banks.

More generally, John's research was influential because it helped shape how people in the economics profession, especially macroeconomists, think about key economic phenomena. He made fundamental contributions to several distinct but intertwined areas of macroeconomics. I will highlight three that are especially salient for monetary policy.

First, much of John's early work (with Andrew Caplin) focused on modeling price stickiness, and the implications of this stickiness for the real economy. Leveraging (S,s) pricing models that provide a rich framework for modeling such rigidities, John and Andrew showed why monetary policy has effects on the real economy – and how these effects may vary with economic conditions. This research stream also helps explain why monetary policy works with lags – the so-called time dimension of monetary policy transmission. In later work, John and Mark Gertler provided a tractable (S,s)-based framework for modeling the Phillips Curve, which laid the foundations for important modern approaches used – including by major central banks – to quantify how monetary

policy affects macroeconomic outcomes. One important idea that subsequently grew from this work was that the Phillips curve could be nonlinear. This has been a subject of much discussion in policy circles, most recently following the post-pandemic inflation surge, and was featured prominently in the Federal Reserve's most recent framework review.

Second, John and co-authors made substantial contributions to explaining how monetary policy actually works – the channels of transmission. One important contribution was to explore (with Simon Gilchrist) the links between asset prices and monetary policy, considering questions of great relevance for policymakers – such as whether and how monetary policy should react to shocks that impact financial markets. In recent work with Aditi Thapar, John examined another potential determinant of the transmission – the demographics underlying the economy – finding that the impact of monetary policy increases with the size of the middle-aged population.

Third, in the most recent part of his career, John made major contributions to the burgeoning field of rational inattention – how people pay attention, and what information they pay attention to. While much of his work focused on micro foundations, this research helped lay the foundation for the movement away from models with rational expectations towards more realistic macroeconomic models, implications of which have made their way into policy discussions. In fact, the interplay with alternate forms of expectations was an important consideration in the Federal Reserve's deliberations about flexible average inflation targeting, which was adopted in 2020. In particular, as I've already mentioned, John had a deep interest in how people form expectations – and in ways these may be biased – emphasizing that people's expectations may be overly "optimistic" relative to a typical rational expectations approach.

Pulling these themes together, one central message of John's work has been that monetary transmission depends on microeconomic heterogeneity and frictions that earlier representative agent models miss.

Of course, the real world never works as simply as even quite complex models suggest. And as a policymaker, I am keenly aware that actual policy decisions are almost never easy or clean – the real world is much more complicated and nuanced than our simple models can describe or capture. This is something John was highly attuned to, eager to discuss, and always trying to better understand.

Having John join the Chicago Fed as a research director would have brought an exceptionally broad and eclectic thinker to the policy table. I am sure John's intellectual

contributions would have been greatly appreciated by the members of the Open Market Committee as it grapples with complex economic phenomena.

I'll end my remarks there, and look forward to the additional discussion with Kathryn and Allen. But let me say, once again, that I am very grateful for the opportunity to be here, to celebrate John's work and life with great appreciation. John is, and will be, deeply missed.