Opening remarks
"Frictions in Financial and Labor Markets" - October 21-22, 2010
35th Annual Economic Policy Conference

It is my pleasure to welcome you to the 35th Annual Policy Conference of the Federal Reserve Bank of St. Louis.

I want to thank, in particular, Rody Manuelli of Washington University for working with members of our research staff—Adrian Peralta-Alva and Bill Gavin—to put this very provocative program together.

The theme of this year's conference is: "Frictions in Financial and Labor Markets."

The NBER business cycle dating committee has declared that our most recent recession is over. As one of the most traumatic of the postwar era, this recession has left the U.S. economy with an unusually high and persistent unemployment rate.

Moreover, this recession originated in especially severe financial market turmoil. Carmen Reinhart and Ken Rogoff, among others, have argued that recessions associated with financial crises are more severe and require longer recovery times. However, there is no consensus on the precise nature of the transmission mechanisms through which financial frictions translate into more severe recessions. It is also not clear whether and how weakened financial systems may hinder the recovery of output and employment. Theories abound, to be sure, but fully satisfactory explanations haven't yet been developed.

The research to be discussed during this policy conference addresses these important issues and is thus particularly timely. The spirit of the research is also consistent with our aim of bringing frontier research closer to the policy arena. I am not satisfied with the notion that for academic discussions we use one class of models, but for policy discussions we use another. To the extent that we can push the two closer together, we will produce both better research and better macroeconomic policy.

The range of issues we will hear about during these two days is quite broad:

- We will hear a discussion of the long-run implications of well-functioning financial markets for economic growth.
- We will attempt to better understand the implications of women entering into the labor force for the labor search behavior of households.
- We will look at possible channels through which a tightening of credit may translate into higher unemployment, and the associated welfare implications for different subgroups of the population.

All of this research, and more, emphasizes the mix of frontier theoretical, quantitative, and empirical work that makes modern macroeconomics both exciting and important. It emphasizes the reality that modern macroeconomic research is not solely focused on simplistic models in which markets work perfectly. Papers in this conference show how heterogeneity and frictions that may impede markets can have important implications for aggregate performance.

Rich models like the ones we will see bring theory closer to the policy arena. The Federal Reserve Bank of St. Louis has long supported basic research in economic policy. We have long tried to provide perspectives on whether the policies adopted in the past still serve us well today and whether recent developments at the frontier of research can be applied to improve policy. That is what the St. Louis Fed has aimed to do for the past five decades.

With that in mind, I welcome the speakers who have agreed to share their insights with us today and tomorrow. I trust that during the next two days we will all learn quite a lot. Thank you for being here and have a great conference.

James Bullard, President and CEO
Federal Reserve Bank of St. Louis