

Gordon G. Thiessen

I have known Chuck since he spent a summer at the Bank in the early 1970s. But I did not really get to know him well until 1978, a few years after he had joined the Research Department of the Bank. At that time, John Crow was the Chief of the Research Department, responsible for following the real economy, and I was Chief of the Department of Monetary and Financial Analysis. John's responsibilities were real, while mine were nominal.

John and I were lucky to each have a very talented person working for us—Chuck Freedman in the Research Department and Bill White in my department. And we thought we ought to do something to further their careers at the Bank, because these were very clever guys. And if the truth be told, Chuck and Bill thought they were pretty good too. Well, what to do? In what was not very typical in the Bank at that time, we decided to do some career planning and widen the horizons of these high flyers. In that process, Bill moved to the Research Department. And Chuck came to work with me so he could be introduced to the nominal world.

In 1979, Chuck became Chief of the Department of Monetary and Financial Analysis. Following that in 1984, he became Adviser to the Governor, and in 1988, he was named Deputy Governor, always with responsibilities in the monetary and financial policy area.

Since 1978, Chuck has been involved in all the major monetary policy and financial policy issues at the Bank of Canada. In the monetary policy area, he helped to manage the Bank's M1 targeting process until 1982. And indeed, we managed that targeting exercise wonderfully well—more rigorously, we thought, than any other central bank. The only problem was that it didn't work. Sure, we reduced the rate of growth of M1, but we did not make any significant progress in lowering our inflation rate. We had the usual problems of financial innovations causing shifts in the demand

function for M1, but the real issue was that M1 in Canada was just too interest elastic to be effective. We abandoned our M1 target in 1982.

I think of the 1980s in the Bank as being akin to the Israelites wandering for forty years in the wilderness after the exodus from Egypt. Chuck and his troops must have looked at every conceivable monetary aggregate, plus nominal spending, in the hope of replacing M1, but without success. They tried some very innovative things. But I would hate to tell you how many times the data got worked over. When Gerry Bouey, who was Governor from 1973 to 1987, was asked to deliver the Per Jacobsson Lecture in 1982, he entitled it, "Finding a place to stand."

Finally, in 1991, we found a place to stand. We adopted targets for inflation reduction and control. Chuck was heavily involved in the work leading up to that decision. And he, along with David Longworth, wrote the background paper setting out how the Bank was going to manage the new process of targeting. That paper was remarkably good, given how early we were in the inflation-targeting era. I am thinking particularly of our use of a measure of core inflation and the fact that if we were to miss one of our reduction targets, we would focus on meeting the next one, some 18 months later. In this way, we hoped to avoid adding to fluctuations in output and interest rates. And our approach to managing the target has stood the test of time very well. Since that time, Chuck has been deeply involved in all the subsequent reconsiderations of the target in 1993, 1998, and 2001, along with the issues that the targets raised, including transparency, symmetric responses when inflation was below target, as well as when it was above target, and improved ways of implementing policy to achieve the targets.

My point is that Chuck's signature is all over the analytic work underlying all the major policy decisions the Bank has made over the past 25 years. He also had a large hand in sorting out the important matter of how we communicated those decisions.

Since 1994, Chuck has been a member of the Council that makes the interest rate decisions at the Bank. He is jointly responsible for those decisions and, depending on your point of view, he has to take his share of blame for all of them. He also played an important role in our decision in 2000 to make those interest rate changes at regular, pre-specified times during the year. That process has worked very well, increasing the public focus on the domestic economic outlook as the basis for monetary policy decisions and breaking the previous market tendency to presume that the Bank of Canada would typically follow Federal Reserve rate changes.

One part of Chuck's career that does not get enough recognition is his work on what we now call "financial stability." I believe it was in 1988 that Chuck became saddled with the responsibility for our involvement in payments and securities clearing and settlement issues. This is not the glamour area of central banking—this is plumbing. And so, late in his career, Chuck became a plumber. These plumbing issues turned out to be a lot more complex and important than we realized initially. There was very little literature out there to help us, and very few people either inside or outside central banks were working in the area. Chuck not only did the analytic work, he did the negotiating with the financial institutions and other groups involved in these clearing and settlement systems. And he was responsible for the agreements that we reached with respect to the Bank's oversight responsibilities under the Payment Clearing and Settlement Act of 1996. More recently, the Bank has expanded its work in the area of financial stability, and Chuck has been the midwife of the Bank's new *Financial System Review*.

What I am saying is that this very academic economist, who joined the Bank of Canada in the 1970s, in the end became the complete central banker. From my point of view, that is the highest compliment anyone can bestow.

Chuck and I worked closely together for a large part of his career at the Bank. We were so continually in discussions together about the various issues facing the Bank, that I, at least, lost track of who had thought what when we started on an issue. Indeed, let me admit that my dependence on Chuck was so great that I am tempted to say that I chose not to take a second term as Governor for fear Chuck would leave the Bank before me.

Every time there was a difficult issue, we would talk it through. And Chuck would always come back with an analytical framework on which to base a decision. He always wanted to be sure we had a clearly articulated theory to back up our judgments. The Bank has always been inclined to operate that way, but Chuck has been one of the most disciplined practitioners. And given his huge intellectual influence on the Bank over so many years, he can take credit for embedding it even more thoroughly in the culture of the institution. That is one of the major legacies that he leaves the Bank.

Finally, I'd like to mention the role that Chuck played in the area of bilingualism at the Bank. He has been the Chair of the Steering Committee on Bilingualism since 1990 and has always encouraged both anglophones and francophones to use the two official languages in their written work and at meetings. He also had an enormous influence on the evolution of bilingualism policy at the Bank. Perhaps the most remarkable thing I can say about Chuck as Chair of the Steering Committee on Bilingualism, and as a role model for others in this area, is that he can speak almost as rapidly in French as he does in English. And that is saying something.

I am sure others have thanked all of you for coming to this festschrift. I want to add my thanks. Your participation makes this the perfect way to celebrate Chuck's absolutely brilliant career at the Bank of Canada.