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Welcoming Remarks:

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Paper:

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P R O C E E D I N G S

MR. WESSEL: Good morning. I'm David Wessel. I'm Director of the Hutchins Center on Fiscal and Monetary Policy here at Brookings. I'm pleased to see so many of you here on such a gloomy day in Washington, and to welcome people who are watching online, so everybody in the room should be careful what you say and do because someone out there will see you.

The topic of today's event is "Understanding Fedspeak." When I came to Washington as a reporter for the Wall Street Journal in 1987, the Fed didn't even announce when it had moved interest rates. They signaled them by the way they intervened in the money markets, and we at the Wall Street Journal had a good thing going because we were able to confirm the Fed's moves and made our reputation doing that.

Then the Fed basically put us out of business around 1994 shattering tradition when they announced a rate increase, and since then, we've had lots of innovations, press conferences, projections of interest rates by Fed policymakers, that you hear a lot about today.

There is no question that there is more Fed communication and more transparency. The question we're going to ask today is how much of that is useful.

We're really pleased to partner with Jon Faust of the Center for Financial Economics at Johns Hopkins University, to ask what is the purpose of Fed communications really, what does the Fed do well, what might it do better, and what advice to people who are trying to communicate from the Fed out to the people who are listening.

As Alan Blinder said just a few minutes ago, communication takes a speaker and a listener. I think there is ample room to criticize the listeners as well as the Fed.

As some of you may know, in anticipation of this event, we at the Hutchins Center sent a survey around to academic and market Fed watchers. We tallied responses from 58 of them with the help of Peter Olson, our research analyst.

The survey is online as are the presentations that will be made today. A few highlights. The Fed got a few As when we asked people to grade communications, a lot of Bs. Interestingly, the median grade from academics was a B, higher than the median grade from private sector Fed watchers, which was a C+.

Only a third of the people on our survey said they had a very clear or mostly clear grasp of the Fed's reaction function, which would suggest to me there is room for improvement.

There was a great deal of disagreement over the value of the summary of economic projections, where the members of the Federal Open Market Committee project interest rates, each to their own liking. Thirty-eight percent of the people found them useless, and 33 percent found them useful or extremely useful.

For reasons I don't fully understand but maybe I'll understand at the end of the day, 73 percent of academics think Fed communications is a big help to the markets, but only 44 percent of the people in the markets think that. (Laughter) Which says to me there is something about academics, the markets, or both.

What we were trying to do as we put this program together was recruit people from a variety of perspectives. We have some current and former Fed officials. We have people from the press. We have a blogger, Tim Duy. We have a number of private sector Fed watchers.

Narayana Kocherlakota tweeted this morning that we made a mistake in not including one of the presidents of the Reserve Bank. Frankly, with the benefit of hindsight, I think he's right. I didn't quite anticipate that our survey would come down so hard on the presidents, or that we would be talking so much about the cacophony today, so I want to apologize for not including one of the Reserve Bank presidents.

We have had a number of them on our stage before. I have a feeling this will not be the last time we talk about Fed communications and transparency, and I resolve to make it better next time.

We're going to start with a presentation by Jon Faust, who is at Johns Hopkins, as I said. Then Alan Blinder, who is a Visiting Fellow here at Brookings from Princeton, will respond, and then I'll talk to them a bit and we'll take some questions. Jon, the floor is yours.

PAPER

MR. FAUST: Thank you, David. I'd like to add my welcome on behalf of the Senate for Financial Economics, and I'd like to thank a lot of my former colleagues and former bosses for coming to talk about this very important topic.

I think Ben Bernanke, Alan Blinder, Don Kohn, and Jay Powell all have more experience in this than I have, and what I'd really like to say is that I'm going to try to set the table for useful discussion to a bunch of people who really have been more invested in this topic than I have, and a number of them are actually more invested in this topic than I am, and that is the private sector folks.

Let me just start with some general background about what are the reasons why the Fed tries to communicate. There are lots of reasons, lots of good reasons to have transparency. Democratic legitimacy is one of them.

A government body should explain itself to the people from whom its powers derived. Accountability. If folks are going to keep track of whether you are doing your job or not, you better be pretty clear about what you are trying to do. There is ancillary stuff like education and public outreach, all those things are potentially important.

The main one covered in this survey that David was talking about is policy effectiveness. Policy seems to work best if people understand how it is going to work and make their plans accordingly. If people understand how the Fed will react to bad news or good news in the economy, they can make their plans, make their investments, make their business decisions more astutely.

Let me emphasize this is a fairly new phenomenon. It was only around 1980 that folks really started to think like this, and at the Fed, it really wasn't until Ben came in as Chair that the notion was really solidified, that the central bank should try to be really clear about how it is trying to operate policy.

I think that has been an incredible advance, and I'm all for it. What I think we are all trying to talk about today and certainly my emphasis is how to make transparency more effective.

One of the important facts, however, Ben came into the Fed, and his plans to advance transparency were sort of rudely interrupted by the financial crisis fairly quickly. Before we settled into kind of the new regime, we got the financial crisis.

I want to point out one thing about the new regime. There are various indicators of how much the Fed talks. Ben came in around 2006. One of the notable facts here is that he seems to have stopped governors from giving speeches (Laughter), and caused bank presidents to give speeches. They are talking twice as much perhaps, the bank presidents. The governors -- now, this is partly elusory, the drop in the governors because as you know, the President and Congress had chosen to leave two seats empty, so we had a couple less speakers than usual towards the end of that.

I put this up because it may shed some light on some of the results David was talking about, but also just to make this point, that the Fed was settling into a new dynamic when the crisis came. It didn't have an established transparency routine.

Obviously, the crisis made challenges that had never been there before. No one understood how the economy was working very well, the old rules were not because the Fed's policy interest rate was near zero, it couldn't use its standard policy tools and move to new ones.

Let me say through the critical phase of the crisis where Ben was leading the Fed in a sort of first responder role, I'm not even going to talk about that a lot because that is a very unique situation. I personally think the Fed deserves high marks for that period. I'm not here to talk about that period. It deserves a lot of discussion, but it is pretty special. I want to talk about today, when we are out of this kind of first responder kind of situation.

I'm going to jump -- critical phase, high marks. I'm going to jump to late 2010. In late 2010, the Fed was about to initiate QE2, but also deep divisions started to appear on the FOMC. The economy had backed away from the press, perhaps, and the policymakers could then kind of take up some traditional views of being hawkish, worried about inflation, or being dovish, worried about the economy falling back over the edge.

One of the things I want to emphasize is these aren't your great moderation disagreements that folks were having. The great moderation, you might sit and quibble about 25 basis points up or down. This was really talking about whether expanding the balance sheet by trillions perhaps put the very existence of the Fed at risk, whether it could be unwound or whether we were doing too high inflation, whether failing to do that might push us back near the edge where we face a great depression again. We are talking about really serious existential questions.

As it turns out, at the same time, this led to lots of transparency challenges. The Fed had not adjusted fully to this new regime of transparency, and yet faced how do you deal with deep divisions in a world of transparency. Whenever the Fed had deep divisions before, it was back in the old days when nobody said anything.

What happened? Well, people started staking out positions before the FOMC. In October 2010, the FOMC had to hold a special conference call about communications issues. That started with Ben warning the group that this external communication, staking out positions, could ruin their ability to actually reach a decent decision inside the FOMC room, and he was essentially quoting James Madison who said that the U.S. Constitution would have never been adopted if the delegates could have been speaking in public the whole time during the discussion.

President Fisher in the December FOMC meeting warned about the dangers that might play for the Fed.

Interestingly, speaking of transparency, 2010 is the end of the available transcripts. There is a five-year window protecting the transcripts, so we don't know the end of this story, but I'm going to talk about the dynamic that ensured thereafter.

Rapidly after these divisions appeared and began to cause challenges for the FOMC, we got reforms on how the minutes were written. We got the press conference being adopted. We got reforms to the SEP. We got adoption of a strategy statement. This was a long sequence of transparency reforms that have continued to this day as we talk about changing the SEP.

These were not just how can we make transparency better. These were how can we balance the needs of maintaining internal deliberation against the needs, the legitimate needs, of explaining policy. That dynamic has continued to this day.

We basically come to this. Transparency in a contentious, deliberative, negotiating situation, it fundamentally changes the policymaking process. The question is how do you have folks out speaking and arguing in public and still have a civilized discussion and reach good policy inside.

I think the FOMC actually did a reasonable job of that, did a good job. It's a difficult problem. They maintained, in my view, the ability to conduct reasonable deliberation, but that required lots of restrictions on transparency that led to some confusion.

Now, at this point, it is probably a good place for me to confess that from the beginning of 2012 and for the next three years after that, I was Special Advisor to Ben and to Janet thereafter, so I witnessed a bunch of this stuff from the inside. I was deeply involved in these issues about how to not only pick a good policy but how to communicate it effectively.

Let me just cut right to here. The FOMC strategy statement, which was adopted the first meeting I appeared for, I had nothing to do with it, has this nice line. "The Committee seeks to explain its monetary policy decisions in the public as clearly as possible." So, that's not true, and it shouldn't be true. That shouldn't be true either. That's the point.

Maybe if I have any major point here it is that we need to be more realistic about what the goals are and what the needs are of deliberation.

Let's talk about this famous dot plot. The first one that came out, January 2012. I'm going to call this ridiculous to assert that this is "as clear as possible."

There is a different standard that Ben wrote about in his blog yesterday, is it useful? Okay, it's useful. Is it as clear as possible? Well, no. For example, we don't know the output in inflation associated with any of these paths. Are the high paths by people who think inflation is really rising quickly so we are behind the curve? Or are the highest inflation paths associated with folks who have very low interest rates, that is people who think the economy needs a lot of stimulus.

Ben pointed out this is sort of a straw vote, which is true, a straw vote among 19 people, but only 12 of them vote. The seven non-voting presidents are selected in a way to make them not representative. The presidents are supposed to be more hawkish. So, you have 19 folks titled toward the hawkish, pulled together, 12 of them are going to vote, and we do not know what the economy is doing in the background.

I am just saying it is not the clearest possible way to report this. Why would that be? Why didn't we just report the voters and the non-voters, or Ben's forecast? Well, we discussed that.

Ben said, and I think he can comment on this later if he cares to, that he would have been reticent to produce a forecast at all under that scenario because everybody would have looked at his, overemphasized it, they wouldn't have looked at all the others, and then when he went to the others and said so, what's your opinion and tried to build a consensus, it just wouldn't work anymore. You would destroy internal deliberation dynamics.

We get stuff like this, and it's not as clear as possible, and for a good reason, a reason we can all debate, but there is a reason there.

One critical issue is that unanimous consensus policy need not look like the typical dots, so everybody could agree on policy, and that policy could not resemble the typical dot, the median dot, the middle of the dots at all.

That's a really important point because pictures like that kind of invite you to put a line through the middle and say that's where policy is going. It turns out if the disagreement about policy is fundamentally about how the economy is working, and that difference is going to continue, so one group thinks inflation is just around the corner and they think that for years, one group thinks it isn't, and they think that for years, so how will that be reflected in the dots?

You will see high dots and low dots. How will it be reflected in policy? Well, if one side turns out to be right, you'll see low interest rates as far as the eye can see. You will never see those upper dots.

So, are those ignored? Is the Chair running roughshod over the Committee? Well, the answer is on, they are completely present, but in a conditional sense. If we ever see that inflation, we will raise rates.

So, these are all conditioned on an assumption about the economy, and a bunch of those will never be realized, but you can't see from this picture what was motivating those high dots.

Now, if you want an example of this, there is a famous example from the Greenspan era where Greenspan in the late 1990s thought there was a productivity boom and no inflation would be coming. The entire FOMC thought otherwise. He ran policy consistent with no inflation coming, but he didn't run roughshod over the Committee.

He said okay, maybe you're right, maybe we will see inflation next time. If we do, we'll raise rates. He was right, for five years. His dots would have been the lowest on the picture, and those would have been the ones that describe policy.

Now, the point is that it is really hard to get from the component views to how they fit together in policy. So, I spent a lot of time on the SEP, but I wanted to more generalize this to both speeches and to the minutes of the FOMC.

There are two categories of information. One category is you explain the likely evolution of consensus policy. Obviously, that is important. That is what you need for policy effectiveness. The second category, you elaborate the FOMC's disagreements with no guidance about how that will be resolved. So, you just talk about differences.

Now, it turns out the first is just fraught with all sorts of problems with screwing up internal deliberation, so you minimize that. You have the FOMC statement and the Chair's press conference. That is where those happen. All the speeches, the SEP, the minutes, all just elaborate the differences in opinions.

It turns out that those differences of opinions don't get you to the final policy very well, and they have greater potential to mislead than they do to actually inform.

Now, whenever you criticize communication, people want to corner that as you're against communication, so when you argue for more effective communication, people say why are you against communication. So, all these things are great. The SEP is full of facts, the speeches, full of facts.

But the question is can those add up into something useful, and is it effective communication. I think that is where the Fed needs to -- that is what I would like to see out of the Fed, so let me wrap up with this.

Focus on effective transparency, how you communicate where the consensus will take policy. So, in communication on behalf of the consensus, I think the Fed should be more explicit about the way in which the dispersed views are reflected in policy. Some folks are going along for this reason, other folks are going along for that reason.

Otherwise, we are just baffled when these folks give these different views about how we end up having unanimous policy when everybody is all over the map. So, explain it a little better.

Deemphasize or place in context all this disparate views in isolation. We don't need to hear so much about that, but if we do hear about it, it would be nice if it was deemphasized or placed in better context.

Sometimes people talk specifically about forward guidance, and this is my rule of thumb here, and it will be the last thing that I say. So, if there is something true that can be conveyed about the likely course of policy, convey it. Otherwise, don't. If that happens to be time dependent, then it can be time dependent. There is nothing inherently wrong with time dependent guidance or any other form of guidance.

If there is something true about the likely course of policy, convey it. Otherwise, try not to. That rule of thumb should guide things over any specifics.

With that, I'd like to say my main goal was to promote a conversation among these folks, like I say, much more invested in this topic than me, so I'll get out of the way and let Alan start that process.

MR. BLINDER: Don't look at that yet. That was the end. (Laughter) Thank you, appreciate that.

Thank you. I'm glad to be here. This is one of my favorite topics, as some of you may know. I want to start with three very brief preparatory remarks about

Federal Reserve transparency, the third of which will lead me smack into Jon's paper. The first two may seem like irrelevant digressions, but they are not, for reasons you will see.

So, the first one is anyone who provides his discussant with a paper that has no page numbers should be subject to corporal punishment. (Laughter) You will see why shortly.

The second thing, I'd like to point out to everybody that the literary quote that begins Jon's title ends -- he left this part out -- "When we first practice to deceive." I don't think the Fed is trying to deceive, so I'd like to put that on the record.

My third preparatory point leads smack into Jon's major -- the crux of his argument, but he doesn't quite state it this way, and I want to state it this way very clearly and harp on it.

There is an absolutely fundamental distinction between what constitutes transparency under group accountability versus under individual accountability, and the FOMC has group accountability, not individual accountability. I think that should be the lone star that guides their communications. I'm going to be specific about that shortly.

Many of the Fed's recent communications problems arise because member speakers have individual accountability, when in fact they don't, we don't normally see -- there are exceptions to every rule -- football player say at the end of a losing game, well, the team stunk but I was good. (Laughter) Occasionally, you do see that, actually, but it's pretty rare and it's considered bad manners, because the team has group accountability. It is supposed to win.

The Federal Reserve is like that. So, my first recommendation is that Janet Yellen should pound this distinction into members' heads until they are repeating it reflexably in their sleep. The FOMC's official communications policy, which Jon quotes on page N of his paper (Laughter), should be amended to emphasize that point.

My second recommendation is that the Chair should hog the megaphone more. After all, her words pretty much crowd out the others.

The day in which the Chair had spoken and three other bank presidents had spoken, you know what's leading the Wall Street Journal the next morning.

Okay. Having said that, more explicitly to Jon's paper. Me thinks the gentleman doth protest a little bit too much in criticizing FOMC communications. So, for example, on page M (Laughter), he writes "ruinous dynamic" in Fed communications. I'm not sure there is a ruinous dynamic.

The truth is, and Jon pushes this point correctly, very hard, you just heard it, the truth is that conveying complicated attitudes adequately when the Committee is deeply divided is a very difficult task. Add to that the fact that if push comes to shove, the Chair of the Committee does not literally have the authority to muzzle the other members, or the bank presidents aren't even government employees. Did you know that? Well, this is a very educated audience. You know that, but most people don't, you reach them on a .org, not .gov.

Remember, most of the complaints about Fed communications, and the survey echoed this, come from private sector Fed watchers who make their living trying to outguess the Fed, and who, present company excluded, of course, tend to be a bunch of whiners about this. (Laughter) No one in this room, but there are lots of other people.

So, it's not surprising that when you come to page Q and get Jon's three recommendations at the end of the paper, they seem a little thin. I'm going to quote them and discuss each one.

First, and these are quotes, “Depicting the policy as a reasonable and constructive compromise rather than treating it as the preferred choice of a unitary policymaker might raise trust and understanding.” I agree with that 100 percent, and I’m going to come back to that.

Second, “Stop sharing so much information about the diverse views of FOMC members.” I agree with that, too, although not quite 100 percent. As an example of that, I also agree with much of the criticism Jon levels at the dot plot, and I’m going to make a suggestion to improve that shortly.

Third, “Communication on behalf of the consensus might more clearly indicate the role of past errors.” I’m going to disagree with that one. Here’s a rhetorical question. What agency of government or in the private sector for that matter goes out of its way to publicize its mistakes? There are usually other people to do that for you. The Fed had a plethora of such people.

I don’t think Jay Powell when he’s sitting in his office is thinking I wish we got more criticism, nobody ever says anything about our mistakes. (Laughter) I don’t think there is a shortage of that, and I think it’s asking too much of the Fed to add to it.

Now, let me come back to Jon’s first recommendation, that’s the most important. Group decisions are by their very nature, from Jon’s paper, “reasonable and constructive compromises,” not “choices of a unitary policymaker.” That’s what he said, and he’s right.

It’s been a gross avocation of responsibility, I think, to allow this confusion to persist -- once the FOMC was transformed at the beginning of the Bernanke era from what was in the language I’ve been using for many years, an “autocratically collegial committee” under Alan Greenspan, to a genuinely collegial committee under Ben Bernanke, and now under Janet Yellen.

Let me take that point further into something I have long thought the Fed should do, and this comes right back to one of the points Jon was just making. I think it should admit to internal disagreements, explain concisely the main arguments on each side, and tell interested people -- there are only a few of those -- why the FOMC decided as it did.

Now, there is Fed staff in the room who are going to say that's impossible, blah, blah, it's not impossible, as long as you don't expect the statement, which is short, to reveal every nuance of every argument.

You have the minutes weeks later that can provide a lot more nuance, and you know, there is no page limit, not that I know of, on the minutes.

So, to make this idea more concrete, and now if I could see the slide, a rewrite of the policy paragraph, which was the third paragraph of the last FOMC statement. I picked this only because it was the last one, no other reason.

The Fed wrote, and you can read it, "Against this backdrop, the Committee decided to maintain the target range for the Fed funds rate at 1/4 to 1/2 percent." Now, the explanation. "The Committee judges that the case for an increase in the Fed Funds rate has continued to strengthen but decided, for the time being, to wait for some further evidence of continued progress toward its objectives."

Well, really? So, how did the case strengthen between the previous meeting and this one, and why was that strengthening not yet strong enough to pull the trigger, and most importantly, what further evidence was the Committee waiting for before it was going to move?

So, here's my suggested rewrite, which takes 72 more words, I counted them, or Microsoft counted them. (Laughter)

The first sentence is exactly the same. The explanation: “The Committee carefully considered several arguments, voiced by a minority of participants,” note, that was the losing side, “for raising the target range by 1/4 percent immediately. These included the notions that the economy is already at or near full employment, that this situation creates a danger of rising inflation, and that keeping interest rates near zero is contributing to financial instability.

The majority of the Committee concluded, however, that the more prudent course of action was to wait because,” that was missing in the previous, “there is probably still some labor market slack, inflation remains below the Committee’s 2 percent objective, signs of rising core inflation are minimal, and there are few indications of serious financial instability.”

Now, if you’re thinking transparency, you may have noticed that my suggested rewrite, just like the original, omits what is probably the most important reason for waiting, which was there was an election six days later, and we don’t want, as Jon said, that much transparency.

By the way, I would like to see the Fed offer a tradeoff, these fuller explanations, and the statements have much fuller explanations in the minutes, for eliminating the verbatim transcripts, which no one reads anyway except historians, or at least releasing them with a much longer delay. This is a tradeoff. Here’s more useful information, we take away some useless information.

One last point. This won’t take long, Peter, don’t worry. I want to make one last point about the monetary effect of this argument for greater transparency, which is the one Jon correctly emphasizes, but he doesn’t mention this point. I’m sure he doesn’t disagree with it, but I want to, because I have always thought it was important.

The FOMC and the financial markets are in a perpetual kind of dance that is often adversarial but can and should be made symbiotic. Why? The markets are constantly guessing what the Fed is going to do, and the Fed is always trying to guess what the markets would do in reaction to its policy changes.

It has always seemed to me that if and as the markets get better at predicting the Fed, the Fed would automatically get better at predicting market reactions, and that would help make monetary policy better.

I want to finish with that.

MR. WESSEL: Thanks to both of you. I'm going to address a few questions and then we will turn to the audience.

It seems to me, Jon, that what you are saying is somehow the view of the consensus, the one that would be most useful to the markets, is being hidden behind a lot of other comments; right? The stuff that is about the disagreements is getting too much attention, and the statement of the reaction function not enough.

MR. FAUST: So, I guess being hidden, I wouldn't agree with, because that indicates some sort of intent to deceive.

MR. WESSEL: Obscured.

MR. FAUST: "Obscured" is certainly the right word, so Alan and I are agreeing to do more of that, find some way to emphasize the other; yes.

MR. WESSEL: What do you think of Alan's suggestion that the statement be more forthcoming on what the disagreements were?

MR. FAUST: That was my first suggestion.

MR. WESSEL: Did you like his wording?

MR. FAUST: Oh, his particular wording? Yes, something like that, I think, is possible.

MR. WESSEL: Alan, some of this, it seems to me, as you pointed out, is the nature of having a group. If you had a single central bank governor, we wouldn't have this problem. You have argued that we get better decisions when we work in a group. You had that interesting football team analogy, but we have other groups that work on a different system.

The Supreme Court, they don't have a problem with having 5-4 decisions, and they have precedents that people can rely on. The Bank of England seems to have a different tradition where the governor can be in dissent and the world doesn't come to an end.

What is the matter with that kind of approach?

MR. BLINDER: There's nothing the matter with it, but it's a different way of organizing the Committee decision-making. This goes back to what I said before. Those two examples you cited are cases of individual accountability, and that's explicit in the Bank of England Act. Every governor has individual accountability. In the Supreme Court, it's tacit. That's why you have all these dissents and agreements, you know, even if you agree and you issue a statement, you are personally accountable for your opinion.

We don't run the Fed that way. We could. If you take the example of the Bank of England, we could run the Fed that way. We never have. I'm not convinced it is a better way. Maybe it is. The point is it is not the way, and my main point is the way you communicate is fundamentally different if you have individual accountability versus group accountability.

MR. FAUST: That isn't just a happenstance, that is the way the framers of the Fed and the FOMC back in the 1930s intended it. There is a reason why there are 12 votes on the FOMC. That's an even number, as you may know. (Laughter)

The idea, and if you read the hearings, the idea was that you get folks together that when society is deeply divided, those divisions are represented on the FOMC, but then they try to reach a deliberative answer, and it is just a different model, so you can make a case for the other model, and then we would say fine.

MR. WESSEL: Basically, it seems to me what you are arguing is we would be good if we could find a way to have more signal from the Fed and less noise, and much of the conversation of noise seems to come from the dots, which you discussed at length, and from our survey and what other people have said, and you had that chart about the number of comments made by the presidents.

I think one reason the presidents speak out is they have learned that the Fed is not well understood in their communities, and they look at their job as more to Main Street than to the Board of Governors in general, so some of the volume may be a response to the Fed's unpopularity and the political challenges to it. That doesn't go to the content, that just goes to the number.

So, I want to ask you a question and Alan a question, and then we will go to the audience.

What advice, Jon, would you give to a new Fed Bank president about what's the appropriate role of his or her public communications?

MR. FAUST: Well, the communications policy that the FOMC adopted in 2011 in light of the cacophony problem, says that the Reserve Bank presidents are supposed to explain consensus policy and in doing so, they are basically supposed to mimic what the Chair said in the press conference and the FOMC statement, and then they can give their own view.

Now, as it turns out what they do is they maybe mention the statement and they give their own view. I don't think that's helpful. I think they might spend more time reiterating and explaining why the consensus is doing what it is doing, and then could say by the way, especially if the statement showed these different opinions, like Alan and I both said, I'm in this group, actually, you know, I don't fully subscribe to this but I do to that, but emphasize the consensus more.

We had a talk earlier about this FOMC policy, and I guess we basically agreed the presidents seemed to be following the letter of that policy but not necessarily the spirit, and I think they should follow the spirit.

MR. WESSEL: Alan, do you think the dots, the famous dots, would be more useful if we saw each individual policymaker's forecast for the economy as well as their forecasts for interest rates?

MR. BLINDER: Well, sure, but I think you're asking a lot. I think you're asking too much for people to lay that out. This goes back to the thing you quoted me as saying before. You have to have a receptor and an emitter. I think you're looking for real problems between the emission and the reception if you do something like that.

The other thing I was worried about with the dot plot, and I'm going to say two things very quickly, they turn out not to be a problem, and I thought that would start an unending battle to put names to dots in the media. I seem to be wrong. Probably reporters tried, but if they did, they gave up. There has just not been a lot of that with the exception of always trying to guess which is the Chairman's.

MR. WESSEL: Freedom of the press in the market.

MR. BLINDER: Okay.

MR. WESSEL: Everybody gives a speech and then you can do that dot, and by process of elimination.

MR. BLINDER: That was one of the things that bothered me when the dot plot came out, as opposed to treating it, for example, the way the GDP forecast is. Here's the midpoint. Here's a range. No names.

The second thing that bothered me. I actually looked up the first dot plot that you showed, because I forgot how spread out the dots were. That only can give the impression that these guys and gals don't know what in the world they're talking about.

First of all, I don't think that's actually true that they don't know what they are talking about, and second, even if it was, it's not something you want to advertise. (Laughter)

MR. WESSEL: What advice would you give to the listeners as opposed to the emitters of the signal?

MR. BLINDER: Number one is put 98 percent of your attention on the Chair, and two percent, you can scatter around.

MR. WESSEL: Two percent get more sleep.

MR. BLINDER: Yes. That's the corollary to the Chair should command the stage more. Secondly, this varies a lot by person. For some people, reduce this fetish about the Fed's reaction function. Some people sort of take it almost literally. It's a metaphor. There isn't a reaction function, but there is a systematic reaction to economic events, not all of which can be sandwiched into the Taylor role, for example.

You hear this all the time. The Fed has to tell us more about its reaction function. I think, by the way, that if the Fed did something more like that statement that I put, that --

MR. WESSEL: I guess we call that "fake news" now. (Laughter)

MR. BLINDER: If the Fed said things more like that, I think it would be very revelatory about the metaphorical reaction function.

MR. WESSEL: If you want to ask a question, raise your hand, and I'll get one of the mikes to you.

MR. FAUST: Just to clarify, and I'm sure Alan agrees with this as well, these speeches have a lot of stuff in them. If you want to know what the consensus is likely to do with policy, you listen to the Chair. There are lots of good arguments about the economy, you know, all that stuff may be valuable. It just doesn't help you understand where policy is going.

If you want to know where policy is going, listen to the Chair. As for all the other content, there may be many miraculous thoughts involved.

MR. WESSEL: There is a question back there. Can you wait for the mike? Please tell us who you are, or I'll tell you who you are. (Laughter)

MR. BERNSTEIN: Jared Bernstein. So, I think somebody said that the Fed Governors should give fewer speeches, and that strikes me as a bad idea, because I think we add to the signal when we read those speeches. Let me very quickly just give an example.

So, Governor Brainard recently started talking a lot in her speeches about an international dimension to current thinking about monetary policy involving capital flows and the extent to which they are more of a hair trigger, sort of, I'm paraphrasing, and I thought I saw those considerations work their way into the FOMC statements in a way that made sense to me.

So, I felt that was a good example, and I think there are others, of how the Governor speeches boost the signal. Did I hear a pretty explicit disagreement with that?

MR. FAUST: I don't think either one of us said the Governors should speak less.

MR. WESSEL: I think there was something about the presidents should speak less, and I think what Jon was saying is there is a lot of content in the speeches, but when they appear to be predicting what the Fed is going to do at the next meeting, which seems to be what some people in the markets care about exclusively, they can be misleading.

MR. BLINDER: I don't think there would be any harm and probably some good done by having plenty of speeches by governors or presidents if they adhered to the standard that I was suggesting before and Jon was suggesting before.

If there were in statements and in the minutes of the nature of the disagreement on the Committee, and which arguments won and which arguments lost, I don't think it would be harmful for the president of Federal Reserve Bank of X to say you know, I put more weight on this argument than the full Committee did.

MR. WESSEL: Ralph? Ralph Bryant, Brookings.

MR. BRYANT: I haven't heard the word "uncertainty," didn't read it in your thoughtful paper, Jon, or Alan, you didn't mention it. People like Don Kohn have said shouldn't we characterize the uncertainty about (audio skip) a help to making policy.

I'm very sympathetic to that, but would a chart like they use at the Bank of England be helpful? I don't have a sense about exactly what to do. I think it is uncertainty that maybe deserves more emphasis than it was getting.

MR. WESSEL: The mike was not working. The question was is there a way for the Fed to better convey the uncertainty in its outlook and forecasts.

MR. FAUST: So, I think one advantage in that, if we think this information gets too much attention, making the lines blurrier can't be a bad thing, so I guess I agree with that. I think the fundamental problem understanding the dot plot is that the different parties have a different modal outlook, so some think inflation is right around the corner and others don't, there is uncertainty around those modal outlooks, and then there is however we put our weight on which group is right.

I think mixing all those notions, it's difficult to do in a coherent way. So, right now, the Survey of Economic Projections just has a discussion of historic error rates in forecasts, just to indicate these are fuzzy.

Just putting some sort of uncertainty bands around pictures that are premised on different modal outlooks is difficult to interpret.

MR. WESSEL: Isn't part of the problem here that people in the markets want more certainty from the Fed than the Fed can possibly deliver given that the future is unknown?

MR. BLINDER: Yes. That's why everybody will focus right on the middle of the fan chart. That's what they do in England. I just want to make one quick observation about fan charts. I generally like them better than lines for the reason Jon said, but the truth is that these observations -- it's impossible to think about what probability distribution these are drawn from, because you are getting some kind of consensus of 17 opinions.

And we know from what some of these people say they are not from the same probability distribution. That much I know. What probability distribution they are drawn from, I don't know. I don't really know how to read a fan chart, and I think one consequence of that is people just look at the middle.

MR. WESSEL: I think we are going to leave it with that, and I'm going to invite up my colleague, Louise Sheiner, who is the Policy Director, and we are going to have a panel with Ben Bernanke, the former Fed Chair, and our colleague here at Brookings. Tim Duy, who is a blogger and Professor at the University of Oregon. Yian Mui is a reporter who has covered the Fed for the Washington Post.

We need to get up, and they need to come up.

LISTENING TO THE FED

MS. SHEINER: Thank you all for being here and participating. Let me start with you, Ben. You obviously made incredible strides in increasing transparency at the Fed, so I'm going to ask you sort of three questions.

What were you most trying to accomplish? How successful do you think you were, and where have you been the most frustrated? (Laughter)

MR. BERNANKE: I think if I tried to answer that in detail, it would take the whole panel. I don't want to do that.

I think there are a number of reasons for transparency. One is just this idea that Jon raised, which is trying to explain the likely course of policy as a way of making it more effective, and in particular, I think people should remember that a lot of this was done during a zero lower bound period, when the usual Taylor rule type principles didn't apply because of the constraint, and we did have to communicate more than normally.

I think one could argue having an inflation target and a forecast in normal times might be enough, but under the circumstances we were under, we were trying to explain not only sort of where we ultimately wanted to go, but something about where policy would have to evolve in order to meet those targets.

Also, as has also been indicated, this was a period of tremendous political reaction and upheaval, and I think the Fed has made an effort -- I can't say "we" anymore -- the Fed has not completely succeeded but it was important to explain to the broader public about what we were doing, why we were doing it.

I think in this respect, to help the much maligned Reserve Bank presidents here, and I want to emphasize, the Chair is not able to coordinate or muzzle and doesn't try to coordinate or muzzle the Reserve Bank president commentary, but in their support, they were an important basis for providing political support for the Fed in that they would go out in Indianapolis or San Diego, wherever it was, explain what the Fed was doing, and talk to local leaders, community business leaders and the like, and kind of bring them along.

So, I think if I could just make one reaction to this whole conference, there is too much emphasis here on financial market people wanting to know what are interest rates going to do in 2017. Nobody knows. The economy is too uncertain. It's a dynamic decision process with 19 people involved, so that even if you sort of thought privately where you thought things were going to go, you have to recognize there has to be a dynamic debate going on, new information.

Anyway, you can try to indicate the direction of policy, and that again was something that was important to do, particularly during the zero lower bound period, but it is also important to serve these other functions, in terms of education.

I liked Jared's comment about Lael Brainard. She was bringing the debate about policy to a broader public, encouraging input to that debate, and making it in more depth and in a more public way than she could presumably around the FOMC table where she gets the three to four minutes that she gets.

I think it is important to recognize that this communication has a wider range of functions.

Was everything equally successful? I think you could also retitle this conference "Why We Don't Like the Dot Plot." (Laughter) I think the dot plot is like the advanced level of the video game. If you haven't been to the first 12 levels, forget about the dot plot. (Laughter) If you are sophisticated, those of you here who are Fed watchers, if you understand the dot plot, give yourself full credit.

Personally, I wrote a post yesterday, as Jon mentioned, where I argued that there is useful information there, that the difficulties of aggregating the dots are the same difficulties that the Fed itself faces when it tries to aggregate all these views internally.

To finish my answer, I'm generally pleased. I think we had a lot of progress. I think the press conferences have been a big success. I think generally communication is much better, but I do think people should be realistic in terms of what they can expect in terms of prediction of future interest rates.

MS. SHEINER: In our survey that we sent out, as David mentioned, the academics gave the Fed a pretty good grade, and the markets gave it a much less good grade, saying they had a lot of trouble understanding what it was trying to communicate.

Both of you have sort of a different role. Let me start with Yian. You have a role as part of the press. What is your perspective on how easy it has been to understand the Fed and what grade would you give Fed communications?

MS. MUI: I'm going to shy away from giving you an actual grade. I would say the press has a very different role. I think you made a good point, Ben, that markets are not the only audience that the Fed has. The press' role, I think, is to not just divine what the Fed is trying to say and sort of explain what the Fed is doing, but also to hold the Fed accountable.

Often times, I feel that Fed reporting is like Supreme Court reporting, right? The person who wins, the person who gets the scoop is the person who correctly identifies what the Fed might do, or correctly identifies what might change in the FOMC statement going forward.

That is sort of the role of the professional Fed watchers as well, and I think the role of the press needs to be one that is more focused on accountability. For example, just to call you out on one thing, the example in 2013, when you sort of laid out here are the conditions that we might expect to see when the taper finally ends, and you brought up the unemployment rate being 7 percent.

I really felt that both myself and my colleagues didn't do enough to say you said 7 percent, you guys had this forecast of where the unemployment rate was headed, it was wrong, why is that? What did that mean for how you were going to conduct policy in the future? What did that mean for the Fed's reaction function?

So, I feel we should be backward looking more so than we should be forward looking, or just as much as we should be forward looking because I feel the press has a role of holding the Fed accountable in a way that the markets don't.

We're not trying to explain away what the Fed is doing. We're trying to understand and call it out when there are changes in forecasts. I do think the changes that Ben made in transparency have actually helped in terms of accountability, that was the right step.

The press conferences, I find them helpful, both for my own understanding, and I hope that the public finds them helpful as well. I think with the press, you're going to have different types of questions being asked than you would for market participants. I think that the press has shown that it is pretty good at trying to pin down information from members of the FOMC and participants, and the FOMC meetings.

I believe in the paper that Jon presented, he had an anecdote about Alan Greenspan sort of saying, well, don't talk to the press because if you give them one straw, they'll try to make a story out of it. If you give them two straws, they will make up a big headline about it, right?

I think that goes to show that maybe the Fed does serve a useful role, and the press can be a valuable took in helping to understand and explain what the Fed is doing.

MS. SHEINER: Tim, explain to me what you think of as your audience and your role. I'm going to ask you how you grade them, but I'm going to say from what perspective would you even be taking.

MR. DUY: I end up taking, I think, a number of different perspectives. Sometimes it is more as an academic, and sometimes it is more as a market participant or somebody speaking to market participants. I cross, I think, a lot of the different boundaries.

What I've noticed is yes, as Alan said. The market participants are going to want far more certainty than the Fed is ever possibly able to give. Sometimes they were getting spoiled during the crisis because we could lay down, oh, we're going to hold the interest rate to zero for an extended period of time. We really can't do that anymore.

Any time you lay down specific markers, which academics might like because it gives some guidelines by which we can analyze it, it becomes too much for the markets. They lock on to those specific guidelines and it becomes a real mark they can follow.

I think that may be why academics might grade the Fed higher because they are happy to see transparency and they can interpret that transparency better, but the financial markets don't appreciate it unless it is very, very much an accurate statement, you know.

MS. SHEINER: I have a question for you, Ben, sort of related to the different access that you have. The Chair meets with the press the week before the FOMC meeting. We have heard people tell us that one of the problems is that market participants can't meet directly with the Chair, that it would be viewed as sort of giving favoritism, but maybe there is just not enough communication, so some of these communication problems with the market is just because there is just not a lot of dialogue.

Do you think that the Fed gets the markets? Do you think it needs more input? Is that something that --

MR. BERNANKE: There is a problem there, which is when you meet with press, you meet with bank CEOs, or you meet with market participants or whatever, you need to do some of that as a member of the Board because you want to get the input, you want to understand what is happening in markets, but even if you don't say anything that you shouldn't say, there is always the risk that the person will go out and say well, I met with the Chair, of course, here's my inside view, and that's illegitimate. You don't want that to happen.

So, I think that is a problem. I personally came to rely a lot on trusted members, people on the Board, for example, who had their ear to the ground or to the New York Fed and so on. It is a problem.

There are a few groups, for example, the Treasury Borrowing Advisory Committee, which is made up of people from all around the financial industry, which has a formal role in advising the Treasury on its debt issuance, and they would come regularly, you know. There would be a broad discussion of developments in markets.

There is a Federal Advisory Council which is created by the Federal Reserve Act, which is a banker from each of the 12 districts.

You would get some formalized input, but trying to manage that communication in a way that didn't violate, you know, confidentiality, et cetera, is not easy.

MS. SHEINER: You already view that as one of your roles, not just hold them accountable but be that intermediary between the markets and the Fed, or that is really not something the press sort of can do?

MS. MUI: I don't really consider the markets for my stories. No, I don't. One thing I would say, also in defense of the much maligned Fed presidents in this conference so far is that they also serve an important role for sort of generating new ideas. They are the ones that can throw the spaghetti against the wall, right, and not have so much weight attached to their words, so they feel a little bit less constrained, you know.

You have to remember it was James Bullard who came up with the idea or was promoting the idea of an open-ended QE very early on. Charlie Evans and the thresholds, right?

I think even though at the time they are perhaps making those arguments they are not setting the course of policy over time, some of those ideas can be assimilated into the consensus, and they can be very important.

I think that is another reason why I don't consider much of what the Fed presidents say, I think it is important to mine all of the information thoroughly.

MS. SHEINER: The market participants should pay attention to the Chair if they are trying to figure out what is going on, but the press should pay attention to everything, to look for sort of underlying stories that may or may not go someplace.

MR. DUY: One of the points we haven't talked about is we do a press conference every other meeting. A press conference at every meeting, I think, would help to resolve some of these issues.

For example, Alan had the extended version of the FOMC statement, and some of that could be in fact incorporated more in the press conference. If we are all complaining that we don't get enough talk from the Chair, there is an opportunity for four more times a year. That seems pretty straightforward.

MR. BERNANKE: Can I comment?

MS. SHEINER: Yes, please do.

MR. BERNANKE: I agree with you, just have a little bit of sympathy for being the Chair and having to run that meeting, doing all the stuff which now the Chair does. The Chair now summarizes the content of the meeting, and does a lot more internally than used to, and then you had to go out and do the press conference. It's not the most easy thing.

I understand your argument. I liked Alan's revision of the statement, but there is another practical issue. Two points. One is that the statement has to come out immediately after the end of the meeting, so there is a sense in which you would have to do a lot of this work in advance of the meeting, and to what extent is it therefore really reflective necessarily of new debates going on.

The other point is when you wrote that statement, obviously you understood the debates, so clearly the minutes and the speeches and all the other communications had clearly explained to you what the issues were.

Somehow, I don't think that if that statement was the official statement, you would have been particularly better informed about the debate than you are now.

MS. SHEINER: He's on level 12 of the video games. (Laughter) Why in the revised statement would not including the fact that there was election risk and election uncertainty in November be too much transparency? Why would including that information either in the statement or in the press conference following be considered too much transparency?

MR. BERNANKE: Well, if you're looking at me, I don't know. (Laughter) I'm not at all sure. The other aspect of November was there was no press conference at that meeting. Whether the election was an important issue or not, I honestly don't know whether it was.

MS. MUI: I was frustrated by the September meeting and by the November statement in that I feel the Fed is so careful to preserve its independence, which is an important and useful thing, that they are afraid to say what was obvious to everyone, which is that there was huge uncertainty around this election.

I think that contributes to the confusion in the marketplace because they are looking at the economic data, and the economic data is pretty good. There is no real reason why you couldn't go in November, except for these two reasons we just brought up, which was the election and there was no press conference, but if those are the reasons you're not going, they're not very clear from the statement, and they are not really economic reasons.

So, I think the Fed could be more transparent or more straightforward in admitting some of those things.

MR. DUY: That is another issue of the press conference or lack thereof. I appreciate your concerns as well. The issue of not having a press conference and therefore not being able to do policy, we know we can do policy, but somehow, they have chosen not to on a lot of occasions, especially when you are only going to raise interest rates once a year. There doesn't seem like there is a reason not to do it, unless there is a press conference.

That is challenging, and the other thing on the political issue that was challenging is it was clear that Brexit had an impact, and that was stated, so it's not clear why Brexit should have some kind of impact, but the U.S. election shouldn't would be another issue.

MS. SHEINER: What I'm reading from these comments is whenever there is something that is kind of obvious but not said, the Fed sort of loses a little credibility, when people are all wondering, boy, are they really thinking this but they're not telling us?

I've seen some of your blogs were like people trying to pretend that the November meeting is live, you know, as if people don't realize that they probably are not going to move or they are only going to move one time.

I'm wondering if that was a problem going to the four press conferences, which now we have two kinds of meetings. One that is less likely, that somehow you almost move monetary policies but you are only making four decisions a year or something.

MR. BERNANKE: Well, I think there are two states of the world. One is the one we are in now, where rate increases are extremely rare, or rate changes are extremely rare, and actual precise timing of November versus December makes almost no difference, in which case, there is not a whole lot of loss to having four effective meetings a year, or there is a more alternative situation where rates are moving more quickly, in which case I think you will see the Fed would be willing to move off meetings without a press conference.

MR. DUY: Just one more issue about the presidents that had been mentioned, sometimes, and I think particularly to that episode you talked about, sometimes presidents seem like they are trying to position themselves ahead of some of these meetings when I don't know that information is as valuable or can be very confusing, particularly if I sense they are trying to move markets because they fear the

Fed won't move, you know, unless there is a decent probability within financial markets that they will move.

There is some of that I sense going on or I feel going on among the bank presidents, and that, I don't find helpful.

MS. SHEINER: That, I think, was the dynamic Jon was talking about; right? Do you think your legitimate collegiality or this idea to welcome dissent, welcome differing opinions, has unleashed that at all, sort of letting the bank presidents use speeches to try to influence in a way that is maybe not as helpful?

MR. BERNANKE: I think as Jon was saying, I think there ought to be -- the first thing Reserve Bank presidents or governors ought to do is try to explain the consensus view, and then make arguments.

I don't think it is very constructive to be predicting what the Committee is going to do at the next meeting, that kind of thing, which is the kind of thing that the markets want to hear.

I think it is constructive -- again, Governor Brainard's example, I think it is constructive to make broad arguments about the strategy of policy and what things the FOMC should be looking at.

One further comment. Alan and Jon talked about the distinction between individual and group accountability. It is true the mandate to the Fed is to the FOMC as a whole, but there is some individual accountability.

For example, the governors are all individually appointed, Senate confirmed. Presumably, their future careers internally or externally depend on whether they have been seen to be on the right side or on the wrong side. There is at least in some sense individual accountability.

That's desirable to some extent because you want the outside to understand there are people with some weight who are carrying different positions, so there are a range of views being represented. It is not strictly Chair dominated or a single point of view dominated decision-making.

So, I think there is actually some mix there of individual and group accountability.

MS. SHEINER: Let's talk about the dots a little more. One of the things that you opened with actually is a lot of the things that you did, you did because it was a very unusual time, and basically you want to signal that the reaction function had changed, so you couldn't just look at past behavior.

The dots have been criticized. Is this kind of move towards transparency something that you can never retreat from, like if you decided the dots are no longer useful, do you think politically going and saying we're not publishing them anymore is something that would be criticized, and oh, the Fed doesn't want to be transparent any more, or is that something that actually should be on the table?

MR. BERNANKE: Well, there is always a bit of a sense that once you do something, it's hard to take it back. That being said, if there is an element of a broad transparency initiative that is not working, and I'm not making that judgment, I'm just saying if you make that decision, I don't see any reason why you couldn't change --

MS. MUI: We would probably write a pretty bad story. The Fed, blah, blah. (Laughter)

MR. BERNANKE: Oh, no, a bad story.

MS. MUI: Also, we would provide thought for the media as well. I also think the dot plots legitimately can be confusing, but I also think kind of going back to my original point is we all wouldn't be sitting here sort of scratching our chins about what do the dot plots actually mean if the forecasts that had been made turned out to be correct, right?

If the Fed had hiked four times, as sort of the dot plots had suggested over the course of 2016, right, then oh, the Fed thought they were going to hike four times, and then they did.

I think it also goes back to a more fundamental question about uncertainty, accuracy of forecasts, and again, for the press, what is the level of accountability we should hold policymakers to.

MS. SHEINER: I think that goes back to this question which is how much can the Fed really communicate about what it will do when situations change, right? You can hold them accountable but very clearly, it depends on what happens with the economy, what happens with Brexit, what happens, you know, all kinds of things.

I guess in a way the dot plots are trying to show the reaction function, so if we're not going to get rid of them, what do you think of the idea of actually -- you don't have to do it by name, but linking the economic forecasts sort of by number, let's say, with the policy forecasts? Do you think that would help?

MR. DUY: I would like that, but then again, I'm thinking of it in terms -- I like the video game analogy. Some of us would like information that is at an advanced level, whereas other information needs to be at a different level, and trying to synthesize, I think, that range of audiences into a consistent communication message is a challenge.

I think that would be helpful information in understanding there are a lot of different forecasts that are attached to these different interest rate forecasts.

MS. SHEINER: Is there a worry about having this range of information is not like oh, I know, I'm supposed to look at this one and somebody is supposed to look at the more complicated one, like having too much out there for the one who is not on level 12, you know, we will just actually make the communications worse for them?

MR. DUY: There are different audiences and different receptors. I think those different audiences should be attuned to the fact that they may in fact have different audiences themselves and be able to help interpret some of this information across different types of viewpoints.

MS. SHEINER: I'm going to ask each of you sort of two questions, which is one, if you had to ask the Fed to make one change, what would it be, and two, how important do you think is the communications?

Are they pretty good, so it's not really what they should be worrying about, or is it really important particularly in this political context that they really work on improving communications?

MR. DUY: More governor and Chair speeches. That is what I would really emphasize. I think that is where you have the central point of policy making on Constitution Avenue, and I think you need to focus more effort on that.

MS. MUI: More press conferences after every meeting, and of course, I'm biased, but I would also say in terms of what the Fed -- the second part of the question was what the Fed could do?

MS. SHEINER: Communications, how important.

MS. MUI: It's important because in moving one time per year -- to do my job, it's really important they talk more, right?

MS. SHEINER: Ben?

MR. BERNANKE: I don't have specific recommendations other than to say maybe it is worth emphasizing that sort of the premise of this whole thing is that most of the changes have been in the right direction. Nobody here is talking about well, we should go back to 1994 and have no statement and none of this other stuff.

It's a complex world, and it's a complex large diverse committee. You know, we took steps, some of them more successful than others probably, but I think the general direction is one that people seem to be supportive of.

MS. SHEINER: Okay. We have time for some questions from the audience. Please say who you are.

MR. SCHNEIDER: Hi, Howard Schneider from Reuters. I just think broadly one thing that sort of hasn't been addressed here is we are all speaking as if the current lay of the land is going to remain the lay of the land, and you know, we may reach a position in six months where Fed communications have to include, for example, a monetary policy rule.

This is very backward looking, and I wonder what you think the risks are if suddenly Fed communications are constrained by congressional or White House stipulation.

MR. DUY: Yes. (Laughter) That could happen. I have certainly been very concerned how we operate monetary policy going forward could dramatically change over the next four years.

MR. BERNANKE: In the case of a monetary policy rule, this discussion shows you the practical issues. For example, even a Taylor rule, which ignores so many things that you want to take into account in doing monetary policy, depends on Committee consensus on the natural rate of unemployment, the potential output. It depends on Committee consensus on the equilibrium interest rate, and what the dot plot shows you is there is a lot of divergence in the Committee about these fundamental parameters.

Although as I pointed out in my post, I think it gives you information about them, but the idea that you could create a rule that would involve a Committee agreement, and that would be a good idea, strikes me as problematic.

So, I think this debate just shows the practical difficulties of some of the proposals. We will see how it evolves, aspirational legislation and actual legislation are sometimes not the same thing.

MS. SCHLEIGER: Regina Schleiger from Medley Global Advisors. I wonder if the former Chair could talk a little bit about the role of the Subcommittee for Communications, and how that may intersect in some of the issues you are talking about, what role do they play in finessing, enhancing some of the communications tools that the Fed finally settles upon?

MR. BERNANKE: Well, there has been a more or less ongoing Subcommittee for Communications at the FOMC going back before my chairmanship. It goes back to Chairman Greenspan. That subcommittee has been typically chaired by the Vice Chair of the Board, so Ferguson, Kohn, Yellen were the chairs of that. There would typically be four or five people, including both governors and Reserve Bank presidents.

That subcommittee has brought ideas to the FOMC, and a lot of the things that you see came out of very extensive debates. I remember one governor saying she was willing to sign on to any of the new ideas as long as we could just stop talking about them. (Laughter)

It's been very useful. I can assure you at least of one thing, and the transcripts will reveal this, that the FOMC has put enormous -- hours and hours and hours into trying to debate these various strategies.

There is a kind of another problem, which is that the communication rules themselves have to be agreed upon by the Committee. The subcommittee is pretty much ongoing, and I assume it still exists. Jay is nodding yes. And continues to be a source of debate and bringing people on board to some extent of the strategies the Committee uses.

MR. BROWN: Seamus Brown, Moore Capital. Interrelated observation or question, the read on the election driving the November decision sort of reminds me that the market tends to interpret the FOMC dishonestly, as in there is always a conspiracy theory that explains behavior better than some sort of fundamental explanation, which is a bit of a disservice.

That may be a function of this sort of video game level 12 issue, as it relates to communications. It is essentially the Ph.D.'s to understand what the Fed is up to.

Chairman Bernanke did this while he was running the Fed, sort of doing outreach, getting on 60 Minutes, doing a better job explaining the economics underlying monetary policy.

I wonder to what extent can the Fed improve communications to overcome this cynical view or cynical interpretation of the motivations of monetary policy, and whether or not that has something to do with sort of bringing it down to a more basic level so that people understand what is the model for the economy, what people are doing, and what is dictating for monetary policy.

MR. BERNANKE: I would just like to point out that QE2, which was a highly controversial policy, was enacted by the Committee on election day in 2010. It isn't completely allergic to those factors.

The Committee to some extent has to be -- well, will in practice at least be somewhat less than fully transparent because of the internal deliberations, because you have to try to come up with a consensus and people have different views, but I think it is in the nature of central banks that you are going to get conspiracy theories no matter what you do.

MR. DUY: Yes, I think it is very hard to eliminate that conspiracy theory. It is a very loud vocal minority within the financial/market community, but getting rid of it has been just virtually impossible, no matter how much communication we do.

MR. CAMPBELL: Leonard Campbell. I was at an event yesterday where I spent about four hours listening to members of the press and academia essentially say that the public had gotten the election wrong, voted for the wrong candidate.

As I listened to you talk, I wonder if there is something that the press or the Fed could have done to communicate to the public that the economy was a little better, essentially assuming that the outcome of the election was a referendum on the state of the economy.

MS. SHEINER: The question also relates to the difficulty of communication when you want to be careful, you know, about how your statements are going to be interpreted and not sort of be causing, oh, things are worse than they seem, and to be causing people to sort of interpret the economy.

So, to that extent do you have to worry that the signal you're getting will sort of be self-fulfilling, like if you say, oh, the economy is worse, then it will actually become worse than it seems.

MR. BERNANKE: Chair Yellen was asked at her testimony about the implications of possible policies under the new Administration, and her position, which I think is reasonable, was we don't have a lot of clarity about what those policies are going to be, so it would be a little bit irresponsible to give a forecast in the first place if you don't know exactly what the policy changes are going to be, how are you going to forecast the outcomes.

MS. MUI: This goes back to the point that you made, which is there is an inconsistency there, the Fed specifically called out Brexit as a risk that led to its decision not to hike in June. They said, you know, we can wait one more week, we'll know the outcome, then we can make a decision once we have more information, right?

Whereas, with the U.S. election, which is happening right here in our own country, they did not acknowledge the same uncertainty with the votes.

I think either one, you don't mention Brexit, right, or two, you mention Brexit and you mention the November election, but to do one and not the other seems to me to be inconsistent.

MR. BERNANKE: The word "Brexit" was not in any statement as far as I'm aware.

MS. MUI: She said it in her post-meeting press conference.

MR. BERNANKE: The other thing about Brexit was the economic analysis was pretty clear, which was that there was a strong view that if Brexit unexpectedly passed, there would be a big negative market reaction, which was true in the short run. Nobody could make the same kind of statement about the election. Obviously, we saw what happened.

MS. MUI: Right.

MR. DUY: Right.

MS. SHEINER: The night before to the day after.

MS. MUI: The point was not to take a stand one way or the other the economy will do better or do worse, but the point is there is uncertainty at this point in time, which will be resolved in one week, right?

MR. BERNANKE: It's not. It's been a month since the election, whatever. We still have a lot of uncertainty about policy and the economy, certainly.

MS. MUI: It has been six months since Brexit, and we are still unclear what exactly that is going to look like as well.

QUESTIONER: Somebody mentioned that forward guidance was an innovation during the crisis for obvious reasons. You had to convey to the markets that rates wouldn't go up as quickly as they had anticipated.

That seems to me something that may have to be put back into the bottle. Do you think that is possible? How do you wean people off this notion that the Fed is going to tell you where they think they are going?

MR. BERNANKE: Well, as I said before, I think in normal times, setting your targets and your forecasts might be enough, and the Summary of Economic Projections is not forward guidance. It is a survey of the forecasts and the views of the individual participants in the FOMC, it is most explicitly not a promise or even a conditional promise by the Committee about what it plans to do.

That is very important. That's the first thing in my list of things it is not, that it is not a commitment, it is not forward guidance.

MS. SHEINER: Thank you all.

MR. WESSEL: Thank you all. We are going to take a 10 minute -- 15-minute coffee break. Brookings is on some sort of other time standard. It is now 10:45, and we will convene immediately at 11:00. Thank you.

(Recess)

MR. WESSEL: Okay. Welcome back. So, we thought it would be useful to have a panel of people who work in the financial markets. Actually, all four of these people have, at some time in the past, worked at the Fed. I think, right? Haven't you all? Yes. To talk a little bit about what's it like to sell out to the private sector. (Laughter)

MS. CORONADO: That's great, David.

MR. WESSEL: But Julia said, maybe this should be called the panel of the whiners. But Alan specifically exempted the people who were good enough to come and participate.

So, I'm joined by Peter Hooper, who is at Deutsche Bank Securities, Vince Reinhart who is at Standish Mellon, Julie Coronado who is at Graham Capital Management; and Roberto Perli from Cornerstone Macro.

We, at Brookings, are trying to very transparent, so I've been asked to note that Graham Capital, Cornerstone Macro and Deutsche Bank, the parent, all have made contributions to Brookings which helps make the work we do possible. They are not funders of the Hutchins Center, and on this panel and every other, we maintain our commitment to independence, and underscore that they are all -- all these people are speaking for themselves and not for their -- people who give us money, and vice versa.

MR. REINHART: So that means I'm not going to be invited back. (Laughter)

MR. WESSEL: No, but contributions will be accepted. So, I wanted to start with one sort of fundamental question, which is: It has been asserted that communications from the Fed have many purposes, but the only one that people in the markets want is to know, what's going to happen in December, what's going to happen in February, what's going to happen in April, and so forth. So, is that right? Was that basically your job to figure out what's going to happen to rates, or not?

MR. PERLI: No. So, I very much disagree with this characterization of what market participants want. So, market participants live in a world that is inherently uncertain, it would be nice if we knew what the Fed is going to do next year. Heck, it would be nice if I knew what the S&P is going to be tomorrow, I can retire. Right? But unfortunately that doesn't happen. So, what market participants want is clarity, it's not certainty, it's different, right. So, sometimes -- so there's been a lot talk here about transparency, and I think that's very important, and many of the reasons that Jon pointed out.

But sometimes transparency and clarity are the same things, and sometimes they are not. There are so many one dimensions along which the Fed could try to improve communications along the dimensional clarity, right, and not so much transparency for the sake of transparency, or maybe for other reasons, but that the market participants don't necessarily care about. Clarity is really important.

MR. WESSEL: Okay. Let me get you to explain what you mean by that. But let me ask the others. So, do you agree with Roberto that, you hate to tell me what the Fed is going to do in December?

MR. HOOPER: I'll take the other side. I think -- I mean, the reason people want to hear from the Chair, is they want to hear from where the decisions are going to be made, and the perception. The reason, that your survey came up with these B and C grades, is that people perceive that the Fed has been misleading, that it's been wrong in its predictions, this has not been helpful, and I think that that's just an indication of the ultimate importance of that issue. Where are rates going? And how do we sift through all this information that's coming out, to try to divine -- That's the perception I get from people I talk to in the market.

MR. WESSEL: And do you agree with that?

MR. HOOPER: Partly, yeah.

MR. WESSEL: Really? There's a difference between wrong and being, it is misleading.

MR. HOOPER: Now, the reason -- I understand the reason for these low grades, and that's an indictment of the entire profession. I mean, economics has not gotten it right for the last five years. That's not -- The Fed doesn't get inordinate blame for that, there are some problems around communication, I think, that have maybe clouded things, and the perception that they are not able to or willing to come up with a reaction function that would help people work through things, but we've talked a lot about the reasons for that. I as an economist, and a Former Fed Economist certainly understand that. I have some difficulty sometimes convincing people in the market.

MR. WESSEL: Sticking for a moment to the purpose. Is it unfair the characterization that basically what the people you work for want to know, is what's the Fed going to do, and everything else in detail?

MS. CORONADO: Well, it's not that simple. Yes, of course they need to now, or want to know what the Fed is going to do, and part of my job is to help divine that. And that's not a nefarious purpose, by the way. The Fed conducts its policies through financial market conditions, and so whatever they want to achieve in terms of rates and accommodation, or tightness, they achieve through the portfolio managers I work with. So, it's the way it works, it's not a bad thing. There are a lot of different market participants.

Am I a market participant? I'm an economist, I don't actually have to make a bet, and put money down, that's what the people I work for have to do. They, by the way, have -- they may not be who you are serving, and they have actually priced in a path of that policy that's been more consistent with actual Fed policy for some time. So it may be that, you know, the media or the Fed watchers aren't as perceptive about all the uncertainties and the other things that are affecting Fed policy as the people who are actually putting money to work, who have understood that rates would be lower for longer, for a while.

MR. WESSEL: So, Vince, you've been involved in helping the Fed communicate. You've been involved in commenting at AEI and now, and also the markets. Well first, is it -- Just basically what the markets want: just tell us what's going to happen and the rest is detail? Or is there something more to it than that? Julia makes the point, there's nothing wrong with that. And secondly, how do you think they are doing?

MR. REINHART: So if our view on the Fed is supposed to get into market prices, it gets in through market participants actions, I think Julia is right there. And I think the short answer depends on where I'm standing. If I'm in the middle of the trading room floor, I'm the most important person there at 1:59 on a Wednesday afternoon, but I'll also be the most important there at 8:29 this Friday. That focuses --

MR. WESSEL: And that based on that.

MR. REINHART: -- narrowly directed toward the information that moves markets, that's the trader's perspective. When I'm taking part in the portfolio strategy meeting, you know, on the policy side, on the sell side, buy side, and in the think tank, a part of portfolio strategy, what the Fed -- whether the Fed acts in September, November or December is not particularly relevant to the discussion. We've spent a lot of time doing scenario analysis. If this happens, then this happens; if this happens then here is where we'll be in six months, here, where we'll be in a year.

And it's those market participants who need to understand how the Fed acts. It's to set up policy intentions and how they interpret the economy, because how --

the Fed's actions reveal something about their view of the economy, and that may be an informed view.

MR. WESSEL: Okay. So, I want to go to: What is it that you think? What is it you want that you are not getting, and how could the Fed do it differently? Roberto, you distinguished between clarity and certainty, which I kind of get in the dictionary sense, but what exactly could the Fed do go be clearer, given that there's a lot of uncertainty.

MR. PERLI: The famous reaction function.

MR. WESSEL: But Alan told me it's a metaphor, so do you want an equation, or what?

MR. PERLI: No. We learn, I think, in the past, in the recent past that putting down numbers, perhaps is not the best thing to do because of course, you know, reality can change; right? But look, a simple example that I think Alan brought up earlier: what does it mean when the Fed tells us, we waited because we want some more confidence, or what was his exact words, or more evidence, some sort of evidence that things are going the way we want to: what is the historical of evidence?

So, how are we supposed to figure out what exactly is meant by that? So, maybe I don’t know that Alan's statement is exactly the best possible way to get around the system, but I mean, have the time to start it, I saw it 3 seconds. But it sounds like a good way to do it. Chairman Bernanke, you said about Alan put together the (inaudible) because he knows already. Right? But the difference is that he had to wait three weeks to figure out what to add in the statement. So if you put it in the statement the day of the meeting, you just wait half-an-hour after the meeting.

MR. WESSEL: As I said earlier, if there was one Federal Reserve Governor who made all the decisions it would be relatively for him or her to say, look, these are the three thing I considered, two pointed one way, one pointed another way. But we have 19 people, like it or not, aren't you asking an awful lot for them -- it's hard for them to agree on what to do, now you want them to agree and explain to you how they came to that decision when they probably all got there from different directions.

MR. PERLI: I don't think it's particularly complicated, during the meeting, there is a discussion. So I say something, and I'm in favor of doing certain things, you are in favor of doing something else for a different reason. How does it synthesize those different position in three lines like Alan said?

MS. CORONADO: And the dimensions of the debate are sort of long-standing, it's not like that just came up.

MR. WESSEL: So what would you do different? Do you find them frustrating and misleading? When I told you we were having this conference, you couldn't wait to get up here to tell everybody what the Fed was doing wrong. So, here's your opportunity.

MS. CORONADO: Well, no. Okay. So, look, to be fair I will say, the --

MR. WESSEL: Don't be fair. That's not why you are here.

MS. CORONADO: Well, I like to be fair. The overarching problem is that the reaction function has been changing, the world has been an astonishing place for many years. Now we are calling it R-star being low, but that just means, we've had rates at zero for a long time and the economy isn't booming. And inflation isn't high, and it hasn't met our mandate, so we'll call that low R-star, but that's --

MR. WESSEL: R-star being the equilibrium, it's just means that things are not --

MS. CORONADO: The equilibrium interest rate but, you know, the biggest hurdle has been that the reaction function is changing, because the world is changing, because we live in extraordinary times. It's hard to communicate. And then you sort of hem yourself in with this SEP which projects, and I get all the caveats around what it is and isn't, but it projects this sort of linear structural framework that pretends to understand that if X happens then Y will happen and we'll do Z, X being growth -- Y the inflation, and Z being Fed rates. But actually there's a whole lot of other things happening that complicate those relationships and lead to a different outcome, even if X and Y happen as we expect.

MR. WESSEL: So, if the Fed killed the dots tomorrow would you apply?

MS. CORONADO: Yeah. I think, you know, we've -- they aren’t explicit forward guidance, but they sort of presume a sort of direction and speed of travel and convey a level of certainty, and the key variables driving things that may or may not be true.

MR. WESSEL: Does everybody agree that the dots should be killed? Or, does somebody want to defend them?

MR. HOOPER: I'm definitely not in the ditch-the-dots camp. I think they serve a purpose, the cat is out of the bag, it would be awfully difficult to put it back in at this point. And I think you can improve upon them a bit. I would be in favor of not naming, labeling, or giving the color code so you'll see some consistency across SEPs and dots, and maybe you can get a little better idea what reaction functions are, so there are some further analyses. So there's maybe room to improve there but, you know, I think they should stay.

MR. WESSEL: You on the dots, keep them or change them, or?

MR. PERLI: Like Peter, I would improve them, I don’t think it would be productive to get rid of them altogether. I think there is some useful information can be made better by connecting them, perhaps.

MR. WESSEL: What do you think, Vince?

MR. REINHART: I would keep the dots but change the format. The thing to remember is the Committee backed into relying on the summary of economic projections because they couldn't agree on a forecast as a group, and at least could agree to send in an Excel worksheet, you know, at the time, twice a year, and now four times a year.

MR. WESSEL: Before the meeting?

MR. REINHART: Before the meeting, with the ability to revise after the meeting.

MR. WESSEL: Which rarely happens.

MR. REINHART: Which rarely happens. So, it is a second best to the second best. I think talking about Federal Reserve communication the way we are is shooting the messenger. The problem is not how the Committee communicates, it's how the Committee decides. The Committee isn't as much a group as it could be.

The meetings themselves are relatively inefficient and the statement has become this mechanism to buy off competing FOMC participants, and has grown to the point where it's unwieldy and unhelpful, and because they don't find a common ground, because they, basically, each go as individual voters, raising the question that Ben asked: why bother to even travel, even if you've already made up your mind before the meeting. There's no joint individual ownership of the decision. And therefore it's hard to communicate.

MR. WESSEL: Before you came in Alan Blinder was making the point that in his view, the way the law works, it's the FOMC as a group that should be accountable, and part of the problem is that we have this tension between individual group accountability. But let's assume your diagnosis is right, okay, what do we do about that?

MR. REINHART: By the way, Jon had the exact number in his paper that signaled that for you, and that was in number 12.

MR. WESSEL: Right.

MR. REINHART: The Congress of the United States formed a committee in which 12 people make a decision; that means they wanted them to act as a group, it was an explicit rejection of the meeting voter theory.

MR. WESSEL: Right.

MR. REINHART: Whereas, I think now individual FOMC participants are much more, you know, atomistic actors.

MR. WESSEL: So this is just a personality thing. If we had a different set of people with that, or are you proposing a --

MR. REINHART: I think more of a -- more about process, i.e. and the same people could do it, it's just a question of what's expected at a meeting; i.e.: What do you talk about? What do you conclude? How do you use the statement? I think, if you are asking my list of how to make changes, I would link the forecast as the combinations. Why separate them? I don't think I'd do that, important person, unimportant person, but I'd just give, you know, the 19 combinations. I would make the statement shorter and rewritten every time. And I would make the Committee own more of the statement, and I think --

MR. WESSEL: How do you do that?

MR. REINHART: You don’t let them leave the room until there's more of a -- I'd make the FOMC process terrible, (laughter) but --

MR. WESSEL: But oversell it, yes.

MR. REINHART: Yeah. You know, and I think there would have to be more management before those meetings too, and you'd do the press conferences eight times a year. I think the Chair's opening remarks at the press conference is the common hymnal that Alan Blinder wanted when he was Vice Chair. Those the Committee could agree as a group. I think now there's a certain, I'll almost call it laziness, of not coming to hard decisions as a group, and saying, well the Chair can take care of it in the press conference. Well, if it was important enough for you to want the Chair to talk about it, then you should own it as a group.

MR. WESSEL: That's your statement.

MR. REINHART: Yeah.

MR. WESSEL: That's up for challenge. I was thinking earlier, you know, we at Hutchins Center built a video game, a computer game, called the Fiscal Strip, about fiscal policy. And as we were talking Level 12 on the video game at the Fed, I began to have fantasies of our doing it. And I think where you get exogenous shocks like leaks to The Wall Street Journal, or something, and I think there's potential here.

So, a couple questions. One is, so a lot of the problems that the Fed has are not unique to the Federal Reserve, how do you compare both the form and the quality of their communications to Bank of England, European Central Bank, Bank of Japan, and so forth? Better, worse?

MS. CORONADO: I would say one thing I have noticed in making that comparison is that, I would say Bank of England and the ECB, definitely not the BOJ, but those two institutions, they just tend to be plainer spoken. A lot of Fed speak kind of has to be all embedded in this sort of, they want to say it without saying it.

Kind of, a little bit to Alan's point of rewriting the statement. There were some people that wanted this, there were some people that wanted that, this is what the majority feels like we need to do right now. This is where we came out. Just kind of say it in plain language and I think, you know, there are people, I would actually say Governor Powell and Governor Brainard have been in the camp of being plainer spoken. I'm worried about this, and so I think this. And I think the other banks are more just kind of saying that how this --

MR. WESSEL: Peter, the way you think about the Fed versus its peers?

MR. HOOPER: So, one thing we are moving, I think we are moving towards this press conference every time, a la ECB, and BOJ is following things as well in that direction, I think that's probably going to become the norm. The Fed has to deal with the cloud, the cacophony of many more speakers, and I certainly agree with the notion that it would be desirable to enforce the notion that if you are going to speak, give the house view first.

I mean, I wrestle with this at Deutsche Bank, we have a house view on the economy, we have many bright people had alternative views. When they go out and speak to clients, they give the house view, and then they say, okay, here are risks around that, here's what I think. But I think you can do --

MR. WESSEL: It's a little easier to enforce at Deutsche Bank than at the Federal Reserve System.

MR. HOOPER: Might be, but I think a little more emphasis in that direction would certain help. I certainly don't think we want to muzzle the bank presidents, as was noted, they have a number of roles and one is to outreach, to inform, et cetera. We get a lot of feedback from -- I kind of did an informal poll of my clients global travels in recent months, and the fact that a bank president came to Australia or to, you know, Latin America, and whatever their view, the fact that they are out there speaking and giving some -- that's really appreciated, the Fed is extremely important globally. So, I think there's an important function there.

MR. WESSEL: So, I'm a little bit puzzled. So, when you generally talked to people in the markets, everybody seems to have a lot of complaints about what the Fed does in communications, but so far what I'm hearing is, Vince wants to change the way the FOMC comes to decisions, that's pretty fundamental change. You all seem to like the idea, either improving the dots or getting rid of them, that is linking the interest rate forecast to people's, individual's inflation and GDP, so you can see something.

It sounds like tweaking. Is there something bigger that you think the Fed could do that would improve the quality of communications with an eye towards the policy effectiveness goal that Jon outlined? Who is going to --

MR. PERLI: So one thing that came up from your survey, right, came up, was brought up earlier as well, the Chair should speak more. Good, fine, I think everybody would agree with that. It's not enough, though, right, from the point of view of market participant. So if the Chair simply reiterated the message that was communicated at the last, the previous FOMC meeting, that's not how to value. Right? The Chair can give 35 speeches per year, and it doesn't make a lot of difference.

And I think what would improve the clarity of the process is if the Chair, and only the Chair, right, because it is the Chair, would go out there and say, hey, we received some information between now and the previous FOMC meeting, here is how, at least I think about it. Maybe the Chair cannot speak every single day for the whole Committee, but here is how I think about it. To provide some guidance. You don't have to tell the market, this is exactly what we are going to do, but providing a way which the market would interpret a way the Fed is going to think about this --

MR. WESSEL: Why would that -- I mean, we could adapt the Donald Trump approach, which would be to have the Fed Chair tweet commentary on every economic indicator. Someone imagine the tweet: market is down, sad. (Laughter) So what purpose would be served by getting the Chair to every two weeks say, well, you know, information is coming, it's a bit mixed, a little bit more on the inflation upside?

MR. PERLI: No, no. So I think, look, we are comparing a little bit -- the comparison is not particularly pertinent --

MR. WESSEL: I agree. I agree. It was a good line though.

MR. PERLI: Yeah, if he was. I mean, look, anything that has to do with that is a good line, to say this. Right? But, look, monetary policy works for the financial markets, so if the financial markets don’t understand what the Fed is up to, monetary policy doesn’t work. And so it should be in the best interest of the Fed to communicate as clearly as possible. Don’t commit to anything, but communicate as clearly as possible how you are thinking.

MS. CORONADO: I'm going to say it a little bit the other side. I don't think there is a huge issue. You might hear a lot of whining, and there are -- I think that revolved, we sort of agree, that’s a kind of an inherent part, we whine. You know, it's not -- it's just people are used to seeing the Fed as the cause of the things, but as Vince said, you know, when we are thinking about vigorous strategic decisions, the Fed is reacting to economic conditions. Right.

And we are all thinking about the bigger picture which is what really matters. And I think, so when it comes to Fed communication, it is mainly just tweaking or structuring, or improving rather than complete overhaul that’s necessary. We've talked about things like a set of best practices, you know. I don’t actually think the Fed needs to speak more if it was just more balanced, if the Reserve Bank President spoke less. What is the right forum to speak at? Going on CNBC after the Employee Report? Maybe not so helpful.

But, you know, defending the core consensus view, and how it was arrived at the beginning of each speech, probably helpful, you know, setting some guidelines. I know the fed wouldn't do that, because it would take them like five years to do it, but maybe you could do that at the Hutchins Center and, you know, come up with a sensible set of best practices for Fed communication. You know, maybe that would kind of put a little pressure on some of the speakers that like to speak overly much, or in many, many different forums; or, get others to speak more.

MR. REINHART: Well, I think from my perspective, the Fed disappointing me is just a win-win situation because it's an opportunity for me to be sarcastic. (Laughter) I get out of my --

MR. WESSEL: We all have to do it with --

MR. REINHART: I think, again, going back to the issue, it's about deciding as much as much as communicating. I think they've got to work harder in coming up with a central view of the economy. More ownership of the Fed Chair's opening statement in those eight times a year press conferences go pretty much as far as long as you are going to want. I think that absent that, the unfortunate direction will ultimately there's -- going to have to release the staff forecast.

MR. WESSEL: You said earlier that you thought that they'll write a new statement every meeting, as opposed to keeping it and then changing one word, and having the Fed Fund's futures move 15 basis points on that adverb. Why do you think they ought to rewrite at every meeting? And given that you were in those meetings, is that practical?

MR. REINHART: So, I think it would be, first of all the statement is too long and filled with tautologies that are stated once, then first differences -- first difference and still remain a tautology. So I think taking that out would be helpful in itself. And that the economy, it's true, the economic outlook doesn't change all that much for six to eight weeks, and you have to report on the labor market, you have to report on inflation, you have to report on your outlook going forward.

So it will look similar, but starting from a fresh piece of paper a week-and-a-half before, is better than starting with what you've had six weeks earlier and just encrusting it with more detail.

MR. HOOPER: I wouldn't shorten it. Maybe you can make it more efficient, more effective. Alan Blinder had a great idea, I think, and if you give the whole Committee a hook, in a statement that explains, you know, the different views, the majority and minority view, gets somebody out there who is talking to the people in his district, a basis for: here's our central view, here's why I thought this. I mean, I think it would really help to give a framework to --

MR. REINHART: But I think the problem with the statement is, it is not as much written for us as it's written for each other. And that over time people add things to it, so they feel better about their world view. In the same way the minutes just has everybody's view and you lose the sense of the central tendency, and Jon's paper points out. And it's in that sense I think the statement is too complicated, because it actually is just pitching this enormous tent that allows 19 people cover.

MR. WESSEL: Right. And as Jon pointed out, part of the communications is the way to get the consensus, and so there's a tension between having it deliver --

MR. REINHART: Right. But if you are using statements in between meetings to signal your policy intention for the next meeting, it means that meeting isn't very efficient.

MR. WESSEL: Right. Let me ask one final round of questions, and then we'll go. So, there is legislation pending, which actually passed the House, and as I understand the argument that the Republicans in the House have made is, the Fed isn't really accountable because we don't understand how they make decisions. That somehow The Washington Post and The Wall Street Journal seem to have some sense of what the Fed is doing. So that must be because they get information from the Fed, which, there's some truth to that, as the public records of the Fed Chairman's schedules go.

They have some allegations that stuff is leaked to the market people. You know, I'm not -- This is the argument, in that the people who are left out of this conversation, who really don't understand what the Fed is doing are the elected Members of Congress. And the solution in the Hensarling Bill, is to force the Fed to enunciate a rule, the legislation uses the Taylor Rule, and I think to some wiggle room they can do another one, and then the Fed should have to explain: This is why we are doing what we are doing, and if we are deviating from the rule we have to explain why we are not going along with the rule. Would that make things better or worse?

MR. HOOPER: Let me, two small steps in that direction. I think one of the conclusions from the research for this session is, the Fed needs to do a better job of explaining its reaction function. It needs to -- You know, let's work harder to get some sort of consensus here on some of these key parameters. That's moving in this direction of a policy rule. We all think -- the Fed folks think that policy rules a bad idea to put the Fed in a straightjacket, but maybe the distance between these two is not all that great.

And certainly there's agreement that the Chair could spend a little bit more time explaining things, if doing 12 conferences a year would be a lot of work. Maybe we could something short of that. Have a session with a rotating group of a subset of press folks periodically enter the meeting to explain things, make sure the press is on the right --

MR. WESSEL: I think the source is that they are going to trade, for every press conference, is one less congressional testimony. I think any Fed Chair would buy that.

MR. HOOPER: That’s 4 to 3 right now, but --

MS. CORONADO: That was this period of Humphrey-Hawkins. Right? I mean there's nothing wrong inherently with the Fed communicating well with Congress, and you can put whatever structure you want around it.

MR. WESSEL: But I think what the Committee -- what the Hensarling Bill says is, this kind of periodical reporting where we get this vague sense, is not sufficient. Maybe they long for the days when they had the monetary aggregates, which goes back to the early days when -- I'm looking for your opinion on whether legislation like this would be a net positive or a net negative to the functioning of --

MS. CORONADO: I don’t think it would change much, it would just add another venue or layer of communication.

MR. WESSEL: What do you think?

MR. PERLI: I agree. I mean think most of the times, presumably the Fed will end up not abiding by the rule, that would explain why they didn’t follow that rule, and much of this can be (crosstalk) --

MS. CORONADO: Which is what they do right now with the SAP.

MR. REINHART: Yeah. So, layers trying to describe an equation in a legislative draft is a quite a work of art.

MR. WESSEL: It's worth reading. Yeah.

MR. REINHART: It really is. If you haven't done it yet, you should. I think the FOMC meetings are inefficient, even worse is congressional oversight of the Federal Reserve, i.e. the semiannual testimony and the hearings are just a terrible waste of time, because it's very rare that there's a useful question on monetary policy.

My own proposal is twice a year the GAO should do an audit of Federal Reserve monetary policy, an even-handed description of what rules would say, what standard rules would say. Talk to a bunch of economists, have a range of views, and list 30 questions in the back that would be useful to ask the Chairperson at the Federal Reserve at the next hearings.

Because there's a fundamental imbalance they are just not -- our representatives are not prepared to ask questions about monetary policy.

MR. WESSEL: So, you're not content with just fixing the FOMC, now you are going to move to fixing Congress.

MR. REINHART: Yeah.

MR. WESSEL: And just to clarity, so I think the concern about, "Audit the fed," is that the GAO would swoop in and basically cross-examine every policymaker. Is that what you have in mind, or?

MR. REINHART: No, no. And so I think that that has a legislative fix. You let the GAO only do two audits based on outside information, and most GAO audits are just even-handed exercises as, you know, it (inaudible). And not trying to --

MR. WESSEL: I threaten to call on people here who work for the Board of Governors to see. I was advised that that would not work. Yes, there was one question there, the gentleman there? Yes, go ahead. Remind us who you are.

SPEAKER: Yeah. François (Inaudible). The Fed, the ECB, the Bank of England are, I supposed, the academic institutions in which we seek scientific proof. The outlook as in a few of my former instructors, just to remind us of what economic theories worth this approximation. Yet, members or former members of the Board, or those who have worked for the Federal Reserve Bank are asking for certainty. I suppose which certainty are you referring to? And I pose the question going back to the statement of the FOMC on May 1, 2013, and the statement of then Chair, represented before a joint committee, before testifying, and responding to a Q&A. It seemed to me there was zero deviation from what the Committee had said before in justifying either policy normalization or staying on path. Yet we had a 600 deviation move across major asset classes. So I suppose a simple question is, what else do you really need the Fed to do? It seems to me the Fed is communicating much more than it needs to be.

MR. WESSEL: Okay. So, I'm not sure that I agree that the Fed -- the central banks are academic institutions.

SPEAKER: I suppose that --

MR. WESSEL: Well, I think they are technocratic, and that they are supposed to be experts, but there is -- we live in democracies, and they are accountable to the public. The Federal Reserve is created by Congress, it is accountable to Congress, and I think even people who believe very strongly in Fed independence believe that it is -- it was in the purview of the Congress. That the Congress wanted to set a different mandate for the Fed would be legitimate.

That’s not -- we don't live in a situation where this is, we have to go to some -- where this is written either by God or by the National Bureau of Economic Research. But the question you ask, a good question about, there's a lot of talk about the taper tantrum, and I think that some of the indictment is, that was a -- some people say it's a failure of the Fed, and some people say it's a failure of the listeners to understand. Just what's your perspective on that?

MR. HOOPER: So, I was just going to say that, you know, going back too, the Fed has had a bad record over the last five years, we've been focusing on the negatives, what to do about it. The economic professionals had just as bad a record --

MR. WESSEL: That record in forecasts?

MR. HOOPER: In forecasting, in anticipating, in giving guidance about where policies, and I think the problem with time-based guidance is that you are more likely to slip up on that, in a way that's very clearly identifiable, and I certainly think that now that we are off the effect of lower bound, it's time to deemphasize that.

But I think that over the last year, and certainly over the last six months, the Feds have been getting higher marks for -- fewer surprises, and everybody is right on, and spot on for December here, so it is --

MR. WESSEL: And that goes to my earlier point that that defines success, is that if the Fed Fund's futures is 99 percent that rates are going to move, the Fed is communicating that, well, that strikes me a not necessarily the only standard that one could use for judging Fed communications.

MR. HOOPER: Well, it's helpful also that the economy, and they moving in the right direction to support that, but --

MS. CORONADO: It is a reflection that the markets are correctly reading the reaction function --

MR. WESSEL: Right, right.

MS. CORONADO: -- that the Fed is communicating it well, and I think the taper tantrum definitely wasn't a failure of Fed communication. The Fed had been talking about tapering for months and months and months, it was more, I think, it was a surprising revelation of the reaction function that was a real -- my interpretation, is there's a real desire inside the Board to just get out of this policy for reasons other than just the functioning of the economy, or inflation progress. And that that came through and it was a surprise to market, so it was real information about the reaction function, it wasn't that they weren't telling us all along, that this was on the table, it was like: well why are -- the fact that you would do it with core inflation going down was a surprise.

MR. WESSEL: Jon, and I'm going to call on you. Otherwise I have to make up more questions. What advice would you give people in the markets, like the four people sitting up here, so that they don't --

MS. CORONADO: He gives his advice all the time on his blog.

MR. WESSEL: Well, I'll say we can do it in real-time here.

MR. FAUST: So, to the extent that the FOMC doesn't change anything, like do what I think everybody said: listen first and foremost to the Chair when you want to know signs of about where the consensus is likely to go, not because the Chair runs roughshod over any one, or the Chair is dealing with one who has ideas about that. But the communications policy says, nobody else can say anything. That's the policy. The Chair has the obligation to do that, and so listen the Chair about that stuff. As everyone has said, the presidents and the other governors, they say lots of useful stuff, listen if you like, but it's not about the future of policies.

MR. WESSEL: Why do the markets move so much on a speech by a Fed President?

MR. PERLI: But it's not --

MS. CORONADO: They don't.

MR. PERLI: It's not very clear that they do in the first place. They do in some occasions, and that's why I think this whole bank presidents are much maligned, as someone said earlier, and they shouldn't be because many times there is actually signal in what they are saying. Take, for example, when someone that has always said the same things forever and ever, and said, again, the same thing, well, fine, I don't care.

MR. WESSEL: Has changed?

MR. PERLI: But when someone who has said, the same thing over and over, and now all of a sudden said something different, well, that's a signal.

MS. CORONADO: Right. That's information.

MR. HOOPER: If that someone is perceived to be on one end or the of the Committee and suddenly --

MR. WESSEL: Like those are then coming to (crosstalk) --

MR. HOOPER: That's an interesting -- That's an important signal.

MS. CORONADO: That's what we do.

MR. WESSEL: Do you think that there would be politically acceptable ways for the Fed to communicate better with the people who are in the business of watching the Fed from the private sector? Or, as Ben Bernanke suggested, it's just kind of an impossible thing. That if they are seeing as meeting with you, that's just going to get a lot of bad publicity for both --

MS. CORONADO: Oh. Do you mean communicating directly and getting feedback?

MR. WESSEL: Yes.

MS. CORONADO: I mean, there are forums you can do for that. You know, each regional Fed has advisory Boards, and there are -- you know, you could create more opportunities for communication where it's more public, or, you know, you could -- I do think it's important that there is a give and take in a flow because we come at it from very different perspectives, and both have a lot of value and legitimacy. It's not like one is right and one is wrong, but it's sort of like, Fed is from Mars, markets are from Venus, you know, we need to talk and communicate.

So I think creating the forums in a world where, you know, there's heightened sensitivities about, you know, the appropriateness, just create the venues for doing that. This is such a venue. I mean there is -- other venues you could create where there's an opportunity for exchange of views.

MR. WESSEL: Do you think that the press plays a constructive or unconstructive role in communicating what the Fed does?

MR. REINHART: I don't think countdown clocks are particularly helpful. And that is part of the -- creating the event, it is why sometimes bank presidents speeches get more attention than perhaps they deserve. They are the event of the day, they are something to respond to, something, your opportunity to square a position here or there. I think, you know, the fact is what's the regularity, the Fed never surprises market participants in action. Sometimes they disappoint by not acting when it's priced in, but there hasn't been a market surprise.

I think you can ask the question: Might it be appropriate on occasion for the Federal Reserve to act when the probability of that action is under 75 percent? We are really seeing that now, where you have the slowest renormalization in Federal Reserve history, if you are only going to act once or twice a year, it means that unconditional probability of acting at one particular meeting, is either 12.5 percent or 25 percent. You actively have to talk it into markets to get it priced in, and then how are you getting an independent view on markets?

So the fact that the probability of policy action at the December Meeting is 100 percent, is not evidence that everyone understands the Federal Reserve Policy Rule, it's evidence that they've just kept telling us over and over and over again, they are going to act in 2016, and they are running out of room.

MR. HOOPER: For a paper entitled, Language after Liftoff that my USMPF colleagues and I put together earlier this year. We took a look at several instances of perhaps reporting around key turning points for the Fed. Generally, the statement coming out of the Fed would be something like: if so and so are very conditional, we will do such and such by this date. And invariably the headline is, the Fed will be doing such and such by this date. And it comes out, you know -- and often without the qualification. So I think one lesson we drew here that the Fed -- the press could do a better job of explaining the qualification, and that doesn't make headlines.

MR. WESSEL: Conditional statements seem to be hard for the press, the public, sometimes the markets, and definitely the Congress, to understand.

MS. CORONADO: And I think more the media than the markets. Again, the markets have gotten it better, the media always focus on that, you know, are they going to hide next time or not. And the headline-generating rather than the nuances and the issues and, you know: What's the debate?

MR. WESSEL: So, Roberto -- Oh. Did you have a question?

SPEAKER: It's more of a comment.

MR. WESSEL: Oh, please.

SPEAKER: I want to suggest that you have the right people up here on the stage now to discuss the wrong question.

MR. WESSEL: I think that's a compliment, but I think we'll take it that.

MS. CORONADO: I think the right person. Yes.

SPEAKER: It was both. The title is: What does Wall Street Want? Fed communications are aimed at multiple audiences one of which is the financial markets, another of which is the Congress that you just mentioned, because the Fed is legally accountable for Congress. And there's the broader public, the tiny minority of the broader public that pays any attention to the Fed. They are only going to be informed via the media, that's the media's role. And what I really want to suggest is -- So, point one, often those three audiences can be helped in the same way.

That was the spirit that mock a statement that I put up, but where there is conflict, the Fed should not even care, about what Wall Street wants, because the other two constituencies are just vastly, vastly more important to serve.

MS. CORONADO: I disagree obviously. (Laughter) How dare you. I mean financial conditions are one of the key variables that translates policy to the real economy, for the person who is not leading the, you know, New York Times story on what the Fed said or did the prior day, they will see what interest rates are doing, and whether that makes a house more or less affordable. So, I mean, as distasteful as we all are, we are an essential conduit, and that's never going to change.

MR. PERLI: Perhaps the issue is not -- I agree the Fed shouldn't do what the markets want, but the markets are important, so the Fed should explain what the Fed wants to do to the market, so the market understand and therefore the two sync. Right?

MR. WESSEL: Right. But I think, Vince referred to something, I mean, Jeremy Stein has written about this, that the Fed has gotten itself, and if I can remember Jeremy's argument correct, the Former Fed Governor, back at Harvard; that the Fed has gotten itself in a bad position because it worries so much about how the bond market will react, that it does things that are counterproductive. And he made the point that surprising the bond market once in a while would be a good thing. That doesn't really -- That would not be consistent with your clarity point?

MS. CORONADO: No.

SPEAKER: I think a lot of still really (inaudible) on that, I think probably doesn't agree with your (crosstalk).

MS. CORONADO: No --

SPEAKER: Just to throw that out there.

MR. HOOPER: Alan, you've made a couple of extreme statements here, 98 percent on Janet versus everyone else, I would have put it closer to 51 percent.

MS. CORONADO: Ooh.

MR. HOOPER: Because Janet's job is to build a consensus and getting a sense of how the whole Committee is going. I think there's an importance there, but to say no, almost no impact, no intentions to the markets, I mean, these are all equal constituents at the time.

MS. CORONADO: But the other two are vastly, vastly more important which is --

SPEAKER: Where they conflict.

MR. REINHART: Where they conflict, yes, right. Sure, go ahead.

MS. CORONADO: Mine, would be they don't conflict.

MR. REINHART: So, a couple points. One is, I think the quandary there for Jon is, they are only going to tighten once or twice a year, and they are only willing to tighten if it's 85 percent priced in the day before. Then it means you are going to actively put it into markets; i.e. you are going to --

MS. CORONADO: They always have done that. They've always done that.

MR. REINHART: That's the question. Is that the right way to do it?

MS. CORONADO: But what would you learn on the day before the meeting that would change something. I mean, it's an accumulation of economic developments that lead to a decision so you react and you build the expectation. What would you learn the day before that would make you suddenly want to shock the markets? I don't understand that.

MR. REINHART: No, that's something that is priced in at 50 percent, half the time will happen. I don't see that as a shock, a shock to market participants.

And I think to Alan's point, is when you were working on a speech or a testimony, then hear that the redesign of The Wall Street Journal renders even more of human capital obsolete, you would say: Is this going to be period A1 or C1? Yes, sometimes you are -- or is it even going to wind up in USA Today. Right?

MS. CORONADO: How many tweets is it going to get?

MR. REINHART: Right. And I think you have to respect that there are different audiences that you talk to at different levels, but it has to -- if it's an inconsistent messenger cost, you've made a mistake.

MR. WESSEL: I think what Alan is saying is, look -- Larry?

MR. CHECCO: Larry Checco, Accountability Central. We've talked a lot about uncertainty today, and like everything else, there are degrees of uncertainty, and I'm just wondering how this panel feels about this new administration and whether uncertainty will spike, stay the same? And what advice can you give investors?

MS. CORONADO: Oh. I'm not going to do that.

MR. WESSEL: I'll take first go at that, to see, before anybody decides if they want to (inaudible). As I said to someone earlier this morning, that people like me in Washington who either talk, or on the radio, or write The Wall Street Journal, or write on Brookings' website, and predict things. Or we say that, well, it seems likely, but you never know that the Congress will pass this bill, or the Fed will raise rates in December. But that caveat is usually complete crap. It's just something that people say to cover themselves in case they are wrong.

In the case of the Trump administration, when people say, I really don't know what they are going to do, they mean, I really don't know what they are going to do. So, I think there is -- It seems to me it's obvious that there is much more uncertainty today about what the economic policies of the new administration, the new Congress will be, than we usually have at this time in the cycle. I would think that that can't make the Fed's job any easier, but the reason we have an independent central bank, is so that they can adjust if fiscal policy move in unexpected ways.

MR. HOOPER: The Baker, Bloom & Davis index, for what's it's worth has jumped to --

MR. WESSEL: This is the University of Chicago Index that reads a lot of newspaper articles --

MR. HOOPER: Economic policy on certain index, if you will, that's sort of a pretty big jump, or as could be expected. But this is obviously a case where the Fed giving as much information they can about its reaction function is going to be critically important to the market. Okay?

MS. CORONADO: But I mean, I think because that uncertainty is very high, and this is all going unfold actually relatively slowly. I mean the economy is sort of an ocean liner, so it's not like, whatever happens or doesn't, it's going to have to be legislated and discussed, and debated, and then implemented and, you know, the economy will react. So, the Fed has plenty of time, I would say, to step back and say, we are going to see how this evolves, and for now the plan is the plan, and if circumstances change, then the plan will change, but we -- You know, they don't need to decide tomorrow or communicate at the next meeting exactly how things are going to look in 2017, different from how they did before this.

MR. WESSEL: No. Well, I'm glad I don't work at the Fed and have to take a guess on what fiscal policy is going to be for the next two years.

MR. PERLI: But, you know, I would completely agree there is a lot of uncertainty, right, but among this uncertainty, there is a possibility that what the Fed has been asking for years and years, which is a support of fiscal policy, actually happens, which is what the market is what the market is priced on, on this date, right, so we'll see. It's probably not even to (crosstalk)--

MS. CORONADO: And if it materializes then they have to raise rates in December.

MR. WESSEL: Okay. I want to thank all of you for coming here and doing this. I think it's actually been pretty interesting. I want to stay up here for a minute, and I'll introduce Jay Powell, and then we'll switch.

Jay Powell of course is a Governor of the Federal Reserve, and we wanted to give some sitting policymaker at the Fed a chance to talk and respond to this. And Jay, very graciously, agreed to do that.

Jay has been a Governor since 2012, given the fact that he's now serving a term for -- that extends to 2028, I think we can expect him to give us the real long-range view of monetary policy. Jay, is not an economist, he's a lawyer, and worked at the Treasury and in private sector before going to the Federal Reserve Board. And I really want to thank him for agreeing to step into this situation.

So, please join me in thanking the panel, and welcoming Jay Powell. (Applause)

MR. POWELL: So, David, thank you very much for that introduction. I'm always glad for an opportunity to step into a situation like this.

(Laughter)

And also thanks to the Hutchins Center for putting this all together.

So there's a sense in Jon's paper, and some, but not all of the comments we've heard today that FOMC communications are badly off track, and I'm going to push back on that view a little bit, probably not a surprise.

I do understand that the frustration is real, but I'm going to argue that it's somewhat misdirected. And also that while the "dot plot" has so far not been a particularly good predictor in its relatively short life of actual policy, the SEP and the "dot plot" are nonetheless useful in revealing the evolution of the Committee's thinking over time.

That said, I'm sure that we can improve our communications and will strive to do so. And I'll provide some thoughts on that at the end.

So to begin, I would agree with Jon that there are three important purposes to the FOMC's communication. The first, to provide transparency that enables Congress and the public to hold us accountable for our decisions on monetary policy. The second, to enhance the effective of policy as was discussed. And third, to show the full range of FOMC participants' views even if doing so may sometimes make it difficult for the public to identify a consensus view.

And in my view, acknowledgment of this diversity of views is important in sustaining the public's support over time for the Federal Reserve as an institution, what Jon refers to in his paper as our democratic legitimacy.

And I suppose that the importance of this third purpose is, perhaps, underappreciated in a survey that is directed at academics and professional Fed watchers. In my comments, I'm also going to react somewhat to Jon's thought-provoking and well-reasoned paper.

So to set the stage a little bit, over the last 20 years, we've seen a dramatic series of changes in the way central banks communicate about monetary policy, and the process began with years and years of research and debate, and a good number of today's speakers and commentors were contributors to that debate.

After Ben Bernanke joined the Fed in 2006 as Chairman, the Federal Reserve made a series of consequential choices that moved the FOMC in the direction of more and more intense communication. Those innovations were largely in place by early 2012.

So I've provided a quick summary of the new policies in my written remarks and in these first two slides. I'm going to skip the details now since they've been well covered and just sum up by saying that there were many fundamental innovations, including the Summary of Economic Projections, and later the "dot plot", the regular press conferences after meetings at which participants submit their SEPs, and the Statement of Longer-Run Goals and Monetary Policy Strategy, which included for the first time a 2 percent goal for PCE inflation, and many others as well.

So these tools have now been in practice for five, just about five full years and in highly challenging times for policy, and so as today's discussion shows, they've come under some criticism, so the event is very well timed.

And I want to start the substantive discussion. I think the place to start is just to note that the FOMC is a very large and uniquely structured monetary policy committee. It's one of the very largest, and it is uniquely structured.

We've got seats for up to 19 participants, up to 12 of whom hold votes at any given time. Governors are appointed by the President, confirmed by the Senate. Reserve Bank presidents are appointed by those of the Reserve Bank's private sector Board members who are not affiliated with commercial banks subject to the approval of the Board.

So this unique federated structure was designed to insure a diversity of views, among other purposes. And my strong view, and here I'll join those who have stood in for the absent Reserve Bank presidents, but my strong view is that this institutionalized diversity in thinking is the strength of our system.

My own personal experience is that the best outcomes are reached when opposing viewpoints are clearly and strongly presented before decisions are made. The Committee's diversity shows through most clearly at times like these when economic conditions have been particularly challenging, and when there have been significant policy disagreements.

Our communications are intended to enable the public to better understand how the Committee sees the economic situation and outlook, as well as what the Committee is likely to do if incoming data differ from that outlook, the reaction function.

My sense is -- now, some of you may be thinking of this Far Side cartoon. This sort of brought that to mind. So at the top, he's saying, "Here, Ginger, here ginger," and Ginger is hearing. "Blah, bah, Ginger, blah, blah, blah, Ginger."

So I gave a speech in Indianapolis yesterday at which I talked about the economy, potential growth, productivity, low interest rates, and monetary policy, and I think probably what the press was reporting was blah, blah, blah, December, blah, blah, December.

(Laughter)

So we can move on from that.

(Laughter)

My sense is that the markets and other members of the public focus instead mainly on the timing of the next policy change, or on how many policy changes there'll be in a given year.

It also seems that the public may not fully appreciate the uncertainty that surrounds the outlook. In addition, market participants often say that there are just too many voices saying too many different things, the cacophony problem.

The "dot plot,", as I mentioned, has so far been a poor predictor of the policy path, and some have questioned its usefulness. On the other hand, markets do not appear unusually certain about FOMC decisions.

In theory, our communications about monetary policy can be divided roughly into those that express the consensus, as Jon did, and those that show the diversity of views, and I'm going to focus today on the latter.

Specifically, are communications that illustrate the diversity of views about the likely policy path, especially the "dot plot" and public commentary by FOMC participants other than the Chair currently serving as well, and if not, how can we make improvements?

Going back. Questions of how much to say about the likely path of policy were extensively debated in the public sphere in the years leading up to the Benanke era, and by FOMC participants while Ben was chairman.

The benefits of greater transparency typically thought to include more efficient pricing of financial assets and a closer alignment between the market's views and those of the Committee. Transparency should allow asset prices to respond immediately to incoming economic data which should foster progress toward the Committee's objectives.

Those who supported the publication of some form of policy rate path generally saw it as part of a forecast-based approached to policymaking in which policy plans depend in a complex way on policymakers' outlooks, risk assessments, and objectives.

After all, the whole forward curve matters not just the overnight rate. Monetary policy was, therefore, thought to be made more effective by communication of the full expected path of policy, which could then be incorporated into private sector expectations, and longer-term interest rates.

Now, all along, there have been other voices urging caution and asking, in effect, how much transparency is too much. As a matter of fact, Don Kohn noted in his 2005 remarks that more is not necessarily always better. We'll call that the Kohn rule when it comes to Fed communication.

Critics have often argued that too much discussion of the likely path could be taken as a commitment to a particular path and timing, and could ultimately constrain the Committee from pursuing what it views to be the optimal path.

Indeed, to the extent that the committees talk about the path of policy is given weight, that talk may leave too little scope for private assessments of economic developments to show through in market prices.

Now, Jon noted in his paper that monetary policy gets pretty high marks from 2008 to 2013. He chose to focus on mid '13 forward. I'm going to raise the ante and skip 2013, the year of the "taper tantrum", and 2014, the year of the relatively uneventful taper itself, and focus instead on 2015 and '16, which seem to me to be the most relevant years to the challenges the Committee faces today.

And I'm going to pay particular attention to the "dot plot", the cacophony issue, and the need to do a better job of explaining uncertainty.

So starting with the "dot plot". "Dot plot" is not a consensus forecast of the Committee. Rather, the dots represent each individual participant's assessment of the appropriate policy path.

The Committee considered at length the use of a consensus forecast in 2012, but abandoned that effort after struggling to reach agreement on its parameters.

As you can see from Figure 1, the median dots have moved down from SEP to SEP a lot. The December, 2014 SEP median dots showed 350 basis points worth of increases over the years 2015 to 2017.

Any event, there was one rate increase in 2015. The September, 2016 SEP shows one more in 2016, and two in 2017 for a total of 100 basis points.

The next two figures display rate expectations derived from financial market prices, and forecasts made by financial market participants, respectively. These market paths have also declined significantly over the period. And the path estimated from overnight index swaps, OIS, on the left, has been substantially below the SEP median.

So it does not appear that markets have uncritically accepted the dots, let alone taken them as a commitment, at least so far.

Some argue that the downward march of the dots has damaged the Committee's credibility. For me, the story is both more complicated and more interesting. Like Jon, I don't think of the "dot plot" as having been a useful predictor of near-term policy moves.

It's really too early to say whether that will be the long-run equilibrium or not, but in its first five years, and particularly in the last two years, that has not been the case.

But that's not to say that the "dot plot" is without value. Indeed, changes in the SEP and the "dot plot" over time have been quite revealing about the evolution of policymakers' views about the path of policy.

In recent years, FOMC participants have significantly revised their views about the values to which key economic variables will converge over the long terms, and the same is true of many other economic forecasters.

Since the beginning of 2012, participants' views about the longer-run annual growth potential of the economy have dropped from about 2.5 percent to about 1.85 percent.

Much of that downward revision in estimates of longer potential growth represents implications of demographics and the slowdown of productivity growth. These same structural factors have also weighed on participants' assessment of a long-run neutral federal funds rate, the rate that would be neither expansionary nor contractionary at full employment.

The median assessment of the longer run of neutral federal funds rate declined from 4.25 percent in early 2012 to 2.9 percent at the September SEP with 60 basis points of that shift coming just since September of 2015.

The persistence of low inflation despite faster than expected reductions in unemployment has also led participants to lower their estimates of a long-run unemployment rate, natural rate. The median estimate has declined from 5.6 percent to 4.85 percent in the September SEP.

So taken together, these revisions explain a good part of the downward movement of the dots, and one way to see that is through the application of a policy rule such as the Taylor rule. These policy rules, simple policy rules, as they are sometimes called, incorporate key factors for monetary policy, including the natural rate of unemployment, the neutral rate of interest, and deviations of inflation and employment from their long-run values.

As we prepare for FOMC meetings, FOMC participants routinely see policy recommendations from a variety of such rules, including several variations on the Taylor rule. While these rules are useful as benchmarks, in my view they should not be excessively relied upon for actual policy decisions.

The red line in Figure 7 here shows the policy prescription using the original 1993 Taylor rule together with the September SEP dots for the Federal Funds rate for 1016, '17, and 18, year end.

The Taylor rule prescription has been derived using the median value for core PCE inflation, the unemployment rate, and the longer-run normal unemployment rate, the natural rate from the September 16 SEP.

The intercept in this Taylor rule represents the longer-run real interest rate, or r*, which is set mechanically at 2 percent in the original Taylor rule. If we replace that intercept with the median of the longer run r* implied by the most recent SEP, which, as I just mentioned, is 0.9 percent, we see that the Rule prescribes much lower settings, 110 basis points lower settings, for policy interest rates than does the unadjusted rule, the blue dash line in this figure.

But the lower interest intercept does not completely close the gap between the Taylor rule prescription and the dots. However, many observers believe that the neutral real interest rate is currently well below its longer-run value.

The language that has appeared in the Committee's post-meeting statements since December, 2015, that, "the Federal funds rate is likely to remain for some time below levels that are expected to prevail in the longer run is consistent with this view.

So we can estimate a short-run, time-varying r* using a standard reduced-form IS equation that relates the unemployment gap to its own lagged value and the lagged real interest rate gap, and will use the median of FOMC participants' projection from the September SIP in this exercise.

The IS specification employed here is similar to that used in Laubach-Williams and is shown in Figure 8. When we use these short-run, time-varying estimates of r* as intercepts in our Taylor rule, we get the purple dash line in Figure 9. And the rule now tell us that the median dot remains slightly below the adjusted rule's prescription at the end of 2016 and 2017, but is back by the end of 2018. So as Don Kohn recently noted, "we have been in unchartered waters with unreliable anchors." Well said.

This downward march of the dots shows that policymakers have been learning, and our understanding of the economy has been evolving, as we navigate the treacherous shoals of the post-crisis economy. And that'll be all for the nautical references.

The revisions in the longer-run values and the short-run time-varying r* estimates provide a framework for understanding policymakers' evolving views of the economy, and of appropriate monetary policy.

And the dots for 2016-2017 lie below the purple dashed dotted line in Figure 9 showing that FOMC participants see an even more gradual path of rate increases than is suggested by their short-run r* estimates. This lower path may be related to global economic weakness and risk management considerations at the effective lower bound.

Of course, all of these things, policy would be what it is in the absence of an SEP or "dot plot". So really the new communications tools what they've done is make this more transparent to the public for better or for worse. And in this sense, the "dot plot" is really more messenger than message.

I want to turn quickly to the cacophony question. So I hear, I think we all hear too many voices offering too much diversity of views on the likely path of policy. Reserve Bank presidents and governors are expected to publicly discuss their views on the economy and policy.

Indeed, our policy says the Committee's public accountability is strengthened by open discussion of Committee participants' views about the economic outlook as well as their judgments about the appropriate course of monetary policy.

Central banking often comes across as obscure and complicated, and we try to help the public understand what we do. But there's more to it than that. Jon Faust's paper captures well the framers' vision of an institutionalized diversity of perspectives. In my view, the public expression of our diverse views helps sustain public support for the Federal Reserve as an institution.

Those members of the public who disagree with our policy should know that their concerns are given voice in our deliberations. But there is a tradeoff here to be managed. On the one hand, the effectiveness of policy is thought to depend on the public's understanding of the Committees consensus. On the other hand, the expression of diverse views may sometimes make it difficult for the public to see that consensus.

Jon Faust sees this public discussion as mainly a form of negotiation. And there may be some of that, but I guess in my view the motivations are simpler and more obvious. In addition to our sense that we need to get out and talk in a public role, many of us actually enjoy getting out of the office to speak to outside groups.

(Laughter)

Just as an empirical observation, it appears that we do enjoy talking to print journalists, and some of us like going on television. With the proliferation of media of all kinds there is a crying need for content and we have been willing suppliers.

So in my view, these public appearances are not mainly about gaining leverage in negotiation. There is one single FOMC participant who has most of the leverage in our policy discussions and observers would be well advised to listen carefully to what she says.

I strongly agree though with Jon that it's wise not to read too much about the path of policy into all this communication. FOMC participants, other than the chair, speaks only for themselves and customarily make that clear at the beginning of their remarks.

Their commentary is not intended to express the consensus or to predict its evolution. However, as Jon notes, during the Greenspan era, there was very little discussion of a likely path of the policy rate even by the Chairman. The proliferation of forward policy guidance during the crisis utterly broke that equilibrium. Many of us now seem to be trained to a new habit which is to offer one’s views about the near-term path of policy, typically at the end of the speech on the outlook.

While such communication can serve a useful purpose, I have come around to the view that focusing too much on the precise timing of moves may add to confusion and frustration about our communications.

In addition, in can violate the collegial spirit of our deliberations in which we're not supposed to make up our mind and tell the public what we've done so before meetings. So I am personally trying to avoid this problem in my own remarks.

I'll wrap up quickly with uncertainty. All economic forecasts are subject to considerable uncertainty, and there's always a wide range of plausible outcomes for important economic variables, including federal funds rates.

In her remarks at Jackson Hole in August, Chair Yellen showed the median path for the federal funds from the June SEP surrounding by a 70 percent confidence interval based on historical accuracy of private and government forecasts. I reproduced that figures here updated for the September 16, 2016 SEP.

Note that the tan confidence interval in the figure is much wider than the disparity of views as represented by the central tendency of the projections, the black dash lines. This uncertainty is the fundamental aspect of our world, and it should probably feature more prominently in our communications.

So to sum up, the FOMC and individual participants communicate a great deal these days, much more than in the past. Some of those communications are designed to express the consensus, and some are designed to show the diversity of views.

In my view, communication should do more to emphasize the uncertainty that surrounds all economic forecasts, should downplay short-term tactical questions such as the timing of the next rate increase, and should focus the public's attention instead on considerations that go into making policy across the range of plausible paths for the economy.

Thanks again. Look forward to our conversation.

(Applause)

MR. WESSEL: So what we're going to do is Don Kohn, who is one of our colleagues at Brookings and a former chairman of the Communications Subcommittee, one of more than one we have here, is going to talk with Jay Powell for a few minutes, and then we'll have time for some questions.

MR. KOHN: Well, thank you, Jay. That was a very, very helpful way to end this day, I think, is with somebody on the inside wrestling with these issues.

I was struck by the part of your presentation where you looked at why, about the revisions to the "dot plots", and I was struck by a couple of things with regard to that, and they do have to do with communications, I think.

One is, I thought you made great use of rules in explaining and using the rules to explain the revision, and helpful with the communications about why things have changed. Yet the Federal Reserve seems adamantly opposed to legislation which would, in effect, mandate your using these rules for communications purposes both with the Congress and the public. So how do you reconcile what you're done with the position of the Fed?

MR. POWELL: Okay. So to start with an easy question. Thank you for that. Without wanting to get too deeply into the particular legislation and the enforcement mechanisms, and that sort of thing, but to talk more about the use of rules, so I think the first sort of thing about our communication ought to be our progress toward achieving the dual mandate of forecast for doing so, and the policy that we see as appropriate for doing so.

I would say right behind that, if I could think of one really important thing to communicate to the public about where our monetary policy is right now, it would be the changes in these long-run values, changes in the neutral rate, the natural rate of unemployment, potential growth. Those things are fundamentally important to people understanding what's going on.

I used the Taylor rule, the '93 Taylor rule, as a lens for focusing on that issue. It's a useful benchmark. As you know well, we do look at a variety of these things in connection with preparing for every meeting, but I guess I see it and want to use it in that way.

Many Wall Street economists have done sort of similar exercises in the last couple of months. So that is the spirit in which I use it. I say it highly useful without wanting to get into a debate over a particular piece of legislation.

MR. KOHN: I think I would add to that that sometimes these rules and models are much more useful for explaining changes than they are for explaining the path going ahead, and certainly when I was at the Federal Reserve we used the FOB U.S. model often for explaining deviations from a judgmental path, and the effects of variables rather than tracing the rule ahead.

So I think I actually agree with the position that the rules, use of the rules won't be that useful, or mandating the rules won't be that useful because I think they're not that useful often for seeing the path ahead.

MR. POWELL: If I could amplify it, I do think there are especially useful in chain space, and if you saw the San Francisco Fed piece from last week, they look at the 99 Taylor rule and explain changes between December of '15 and September of '16 through that lens. And I do think it works very well that way as well.

MR. KOHN: So taking up on that, the San Francisco Fed piece and your speech were very, emphasized the role of these long-run variable like this r* equilibrium interest rate, the revision to growth, et cetera, and my sense is that to long-term growth, that fed communication as we've gone through 2016, and we've had, and the Federal Reserve has rationalized why there were fewer increases interest rates, why people might have anticipated a particular date and it didn't happen has concentrated on short-term events.

Brexit was mentioned earlier. Weak growth in tier one. The data dependency. So somehow the incoming data and the financial markets have been used to explain.

And while there has been some public discussion of the r*, and revisions of r*, that's not really the way the Committee has chosen to explain why they've done what they've done.

So I think there's a bit of a, I think I could use your speech to illustrate a disconnect between what the Committee's been saying on a quarterly or eight-times-a-year basis, and the underlying rationale that, which makes a lot of sense, but isn't really what the Committee has been saying.

MR. POWELL: It's been helpful today and in preparing for this to hear that perspective because you have to get outside the building and actually hear how people are perceiving, what we do, but I would say both of those things have been going on.

Just to pick an example. So there was a significant growth slowdown in the latter half of last year and the first part of this year. We've looked through those in the past because job growth, we've been willing to look through them because job growth has been so strong.

But job growth going into the June meeting, the trailing three-month job growth number for March, April, May at that point was 118,000 jobs per month, which was a drop of 50 percent of what the average was for 2015. So that was enough for me to think let's pause and see where we're going here.

Brexit was also happening eight days later. For me that was not an essential part of the thing. It might have been enough on its own, but in any case, that's a real thing that was happening in the economy that financial conditions had tightened dramatically early in the year with cred spreads blowing out, and asset prices off. So I think there was plenty going on in the real economy.

We've also, though stressed, we've had multiple discussions of r* and these long-run values in the minutes. The Chair has given speeches on it. But I hear you though that it doesn't seem to be getting through maybe in terms of the framing, and that's something -- I do think it isn't one or the other though. It's both.

MR. KOHN: We've had a couple of suggestions here on the statement, and how it might be changed. Alan Blinder had the specific suggestion about incorporating really alternative views into the statement that's issued, and how the consensus is formed. Vince wanted to rewrite it every time. You can tell he's no longer on the staff since he wouldn't be responsible for providing the drafts.

(Laughter)

You want to react to Alan Blinder's suggestion, or just the general idea? Can the statement be changed to perhaps more accurately and more fully reflect the underlying reasons for the decision and the diversity of views that went into making it, or is there room for improvement there?

MR. POWELL: So I liked both the idea behind it, and the actual, I liked the pros a lot that Alan proposed, the idea being that you're getting away from this, the oration of a unitary actor, and showing more a compromise. That's really a good thing. Like I said, I really liked it.

Ben raised the first question, and these are not meant to be fatally unanswerable question, but the first question would be how would you get that done? Having sat more recently than some others in the room around the table as tiny wording changes consume 20 and 30 minutes of discussion, I mean, a word where we go around and around, that sort of thing.

So rewriting, I think what you'd have to do is start the meetings on Monday now, and then devote the entire day, Wednesday, to the actual statement. But that's something that should be able to be done.

The other issue would be length though. There was a real focus. The statement got incredibly long when we were doing thresholds, and asset purchases, and making forward guidance, and all those things. It was a telephone book at that point, and there was a real focus on shortening it.

Bottom line, I think that it's a promising direction to look in, to (inaudible).

MR. KOHN: So on the cacophony issue which you raised, what would you do? How would you change things? What kinds of agreements do you need within the Federal Reserve to perhaps emphasize more of a consensus? How would you deal with this problem that a number of people seem to have identified here?

MR. POWELL: I would be looking to make a change at the margin here. I don't think this is -- again, I think there are huge benefits. I actually gave an outlook speech in Indianapolis yesterday. Seven hundred people in a room, and they hear a speech. They get to know how we think, what we do, what we don't do, what we're not responsible for, and they generally leave with a better understanding. This is a civic audience, a much better understanding and appreciation for what we do.

There's no value in that for Julia. That's not going to help Julia and Peter do their jobs. But I think there's real value in it, so I wouldn't try to do away with that. And I actually think the Reserve Bank presidents do a better job of communicating with the general public than the Governors do. We don't have the time. We don't have the bandwidth or any staff to do what they do, and give that kind of a speech a couple hundred times a year. I think there's tremendous benefit in that.

So I would talk is what I would suggest, what I would tweak, rather, is what I suggest in my remarks, which is just try to dial back the precise focus on the next meeting. I didn't actually say what I was going to do at the December meeting, and no one asked, and yesterday in Indianapolis.

So that's the main thing I would.

If you actually read our policy, it's pretty good. If we all followed it pretty strictly, we'd be in a better place.

MR. KOHN: And then finally before we break for questions from the audience, I'd like to ask you to reflect on your role as governor. One of the things we've heard today is that maybe the governors don't speak enough, or themselves need to be a little, to show where the consensus is moving in Washington. How do you view your role in FOMC communications and the role of the governors, and whether that's different in any way from the role of the Reserve Bank president?

MR. POWELL: So we're bound by the same rules, which is to, if you're going to talk about the consensus, you can give your own views, but give the consensus, and do so not by characterizing it in your own words, but by referring to the specific language in the various consensus documents, the press conference, the chairs remarks, and the statement.

So it's no different for me in that literal sense, than it is for me, for bank presidents. I would say I personally bring to this an idea that when I speak publicly I'm trying to do things that will support our, make our enterprise more successful.

I'm not looking to make trouble for the Committee, or make things difficult for the Chair. I'm looking for a chance to get my own views out there, but to do a lot of explaining, frankly, of what we do and why we do it, and to talk about relevant economic issues like yesterday, productivity and long-term growth that the public needs to understand.

And I think if you do that, and respect the consensus documents, that's the main thing for me.

MR. KOHN: All right, thank you.

So we have some time for questions from the audience. Do we have any questions out there? Peter.

MR. HOOPER: Jay, you mentioned that folks from the market and elsewhere should listen disproportionately to what the Chair says in trying to get a sense for where policy is going. How important would you say other members of the committee, I mean, the two vice chairs, vice chair of the Board and of the FOMC, given there's one chair, and they only have so much time, could they play, do they play, and could they play a bigger role, and could there be more done, for example, to emphasize the extent to which messages from these three are somewhat interchangeable.

It was interesting the photo op at Jackson Hole this year where the three were seen together. So part of my question is are you willing to give a little bit more quantitative indication of how important the chair is versus others? Are there others that are close, and more broadly?

MR. POWELL: Trying to get me into trouble, Peter.

(Laughter)

Reeling me near the cliff and yelling jump.

(Laughter)

No, you're right. Traditionally, there has been that group of the two, the vice chair of the FOMC is the president of the New York Fed, and the vice chair of the Fed and the chair traditionally have formed a group that speaks with one voice around the consensus, and I do think that's a healthy tradition, full stop.

(Laughter)

MR. KOHN: Roberto had a question.

MR. PERL: Thank you. Governor, so you mentioned the fact that whoever speaks should speak to the consensus that reflected in official documents, right, which I think is a very much understandable event.

But on the other hand, if everybody gave out there and gave the same speech, what's the point? So do you see some room for differentiation? I mean, personally, I find it useful when I see, when I hear different FOMC members (inaudible) different views, because, look, I don't have the benefit of sitting in the FOMC room, but this is as close as I get to hearing the arguments that people make in the FOMC, and that helps me understand it, right, how people think and now ultimately conclusions are reached. So do you see some value in people expressing different opinions or not?

MR. POWELL: I do. I guess I would say it doesn't sound to me like we're at risk of under showing the diversity of views. It sounds like the risk maybe in on the other side. That's why I say I would only tweak this. But someone said it earlier. Several people did. We can't give the markets and the public more certainty than actually exists. This is a diverse committee is actually structured. I was very struck by this point in Jon's paper. The original framers they really made this so that in difficult times there would be disparate views, and it would be hard to reach a consensus, and that's how it is. That's how it's always going to be. We shouldn't make it out to be anything other than that.

That said though, as you go up to a meeting, I think there's a need to respect what I'll call the collegial process, that we shouldn't be saying in my view that we made up our minds, and, therefore, why have the meeting. We really should preserve some respect for the collegial process. Lead up to the meeting where you leave it open that the decision will be made at the meeting, and has not already been made by you.

I think another point I would make is this business of reacting, somebody made this earlier, reacting to individual pieces of data saying that it pushed you, closer, further from the next decision makes it looks like the Federal Reserve is overreacting, and not filtering the data through kind of a longer, medium to longer-term perspective. So dialing that back would be, I think, very useful.

Mike Perl had a question back there.

MR. PERL: Thank you. I've enjoyed the discussion today. I want to make three quick observations that I will disguise as questions.

(Laughter)

The first is about the value of the substantial focus the Fed has been putting recently on r*, which would you not agree that that is a very abstract concept one finds useful in certain macroeconomic models, but when the effort is made to quantify this, the confidence intervals are very wide, and that doesn't seem to be part of the customary Fed rhetoric these days. Perhaps Jon Williams to some extent, but I keep seeing numbers, oh, it's around zero now, it's going to go to two without emphasis on that uncertainty.

Second question, is the median dot so useful? This was introduced a little while ago I perceive simply as a token step towards greater transparency. You could have simply released a histogram immediately, and it put more focus on this as a real guide to what the Fed expects to do if not commitment.

So is there a value in being a little less precise. And if you wanted to give a useful dot, it would be the chair's dot, given what you have said about the leverage that the chair has in the decision-making process?

And finally, I noticed your comment, which is not the first time I've heard it from a fed person, that one of the reasons the dots are lower than, for example, your Taylor rule would suggest was risk management considerations, but I wonder whether that really makes sense. I can see why it would make sense why you would not move perhaps now, but as we're looking out a year or two, either those risks materialize or you don't have a consistency between the dot and your other economic variables. At least I raise the question whether there isn't some illogic in that particular approach. Thank you.

MR. POWELL: So in my speech yesterday, I did describe what is meant by the neutral rate. I did it to a civic audience. I think I did it very clearly. And at the end

I said it was surrounded by very wide (inaudible). I didn't cite Stock and Watson, but anyway, I think they got the point. I think it's critical to make that point.

The median dot, how useful is it? I wouldn't want to put too much on it. I think we ought to consider some of the additional things people want to do. I think a question we need to ask ourselves about them is do you want to attract more attention to the dots. The more work you do on the dots, the better you're making them more people will pay attention, and maybe that's not, I mean, that's a consideration, let's say.

But the median dot, it's a marginal value. Of course, people can calculate the medians anyway. You don't really need us to do that. So I'm not sure I followed your risk management point though, to be honest.

MR. KOHN: I think he was saying risk management should fade over time as those risks don't materialize, and so a less important aspect a year or two from now than they are today.

MR. POWELL: Oh, and that's, you know, as you can see in my Taylor rule exercise, right now the dots are way below the prescription, the '93 Taylor rule as adjusted, but by 18 they're caught up so you're actually confirming what's in the picture.

Don't give him the mic.

MR. PERL: If the risk didn't materialize in the near term, the simple logic of a simple model would be you're going to have to do more later on because the underlying economy has performed as you had in your base case scenario.

MR. POWELL: I don't want to prolong this, but as long as we're within 150 basis point of a zero lower bound, we're doing risk management no matter what the state of the economy is. You're not away from the zero lower bound the week you lift off.

It's always there to your left not very far. Until you're 300 basis point, you're thinking I need to be careful here.

MR. KOHN: I think I would link Mike's point about uncertainty at the median dot. Seems to me the median by focusing -- so I've advocated doing away with the medians, taking that back. And because I think it doesn't really reflect the broad uncertainty, it focuses on a particular path, and, yes, the market can calculate the path, but it's different when the Fed publishes it, and it's different when the fed emphasizes it in its communications.

Julia.

MS. CORONADO: So in the context of this discussion, we are in an environment of more elevated uncertainty than usual about the outlook for, say, fiscal policy, how it will affect the economy in the context of the SEP.

How do you approach that? There's not much we know, but we know that there are a wide range of possible outcomes that are very different than what we might have expected.

So --

MR. POWELL: Good question. Hard question. I just think there's so much uncertainty around what the actual policies will be of the new administration and the new Congress that it's very hard to know. I mean, the economy is broadly similar. There have been some positive developments of markets, inflation compensation is up significantly. That's a good thing. But it's really, we're not so far from where we were a month ago before the election in terms of where the economy is. So I think it's time to be patient and see how things unfold.

MR. KOHN: Jon.

MR. FAUST: So just on this -- uncertainty is just a hard thing to deal with in forecasts, especially when you've got different view about the economy (inaudible) 19 people. The SEP is supposed to be a modals forecasts. In other words, Mike's uncertainty is resolved in that because you pick the modal path through all that uncertainty.

Now, the point is now we can ask whose cleaver enough in here to know where risk management matters in a modals forecast. Really hard question. I don't think that most folks actually know that.

What would the SEP have to be in December? It's sort of like the modals fiscal policy in the views of the individuals, and that will presumably differ. This just indicates in confusing times how difficult it is to write down any forecast that people interpret properly, and just uncertainty in a modal forecast is just one of those many dimensions.

MR. KOHN: And the one-sided nature of the risk, the asymmetry just complicates it even further.

Any other questions? Way in the back.

VOICE: Back on rules for a second, and given the interest on the hill, I'm just wondering whether there's been any thought given to using documents like the monetary policy report to be a little more transparent about rules you're considering, deviations from them, why it seems there might be a way to sort of mollify some of the concern coming from the political --

MR. POWELL: So, actually, I'm on the subcommittee on communications. I'm one of the four members. And just so you know, we still exist. We meet regularly. The FOMC's calendar is always crammed. There are so many things. It's planned many months ahead. So these things do take a long time.

Going to your particular question though, it's a very interesting idea. I think that's one you've supported?

VOICE: Davis Wessel and I actually had a --

MR. POWELL: Right. It's on that list. So it's an interesting idea that it's probably worth exploring.

MR. WESSEL: So I think we have to bring this to a close. I want to do two things. One is I want to thank everybody, all of our people from New York who came, braved the weather, Jay in particular, for coming, Jon for the very lucid explanation, and everybody for helping to shed light on something which sometimes seems like it's a sideshow. I mean, after all, the policy is the policy.

But I think as we've learned today that the communications are a way to both make policy more effective, and to assure the public and the members of Congress that the Federal Reserve takes seriously its obligations for accountability.

I want to reiterate something I said earlier that if we do this again, and I somehow have the feeling that there will be a FOMC subcommittee on communications at least until 2028. Okay. That we'll try and include one of the bank presidents.

And I'd like you to join me in thanking everybody for cooperating today.

(Applause)

It also makes me very popular with our maintenance staff if you'll look at your feet, and if there's coffee cups or paper there pick them up and put them in the recycle in the back, and I'll get more smiles when I come in in the morning.

* * * * *

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