David Wessel Introduction, Should the Fed stick with the 2 percent inflation target or rethink it?, January 8, 2018

MR. WESSEL: Good afternoon, and welcome. I'm David Wessel. I'm Director of the Hutchins Center on fiscal and monetary policy here at Brookings. I want to thank you all to coming today and for people who are joining us online, I bring greetings from Glenn Hutchins who's the benefactor of the Hutchins Center who charted a plane from somewhere, it was canceled so he can't be here with us today, but he's probably watching on his phone and will undoubtedly be weighing in on everything I did wrong in the first opening segment of this thing, but that's the fun.

When we think that the question of rethinking the 2 percent inflation target is one of the most important questions facing monetary policymakers at the moment. You might say that the backward-looking question that we need to think about and which we, at the Hutchins Center, are thinking about is how did unconventional policy really work and should unconventional policy really be considered conventional policy. But when you look forward I think one of the -- you'd have to argue that one of the biggest questions now is whether, given everything we know, whether a 2 percent inflation target framework is the right one for monetary policy. After all, when it was conceived nobody anticipated we'd have so many years of trying to get inflation up to 2 percent and nor did we think that the long-run equilibrium interest rate would be so low that in the last Federal Open Market Committee survey of economic projections the members said that they expect a long-run rate to be a nominal 2.8 to 3 percent, which just means that there's not a lot room to lower real rates below zero as we usually do in a recession.

Now, when we first conceived this event, one of the reasons we did it is we felt that this was a discussion that was really important but hard for the members of the FOMC to have because if you start talking about this you frighten the markets and bad things would happen, so you just don't talk about it in public. I think we were right that this is an important issue. We were wrong that FOMC members are afraid to talk about it. The minutes of the meetings suggest that it's been discussed and a number of regional Fed banks and Chair Yellen, herself, have raised it. But I think that this is not a decision that can be left to Federal Reserve policymakers or the economists who spend time thinking about monetary policy. This is too important a decision to be left to the Fed and the economics profession itself. It has to involve a broader array of people, a broader discussion in our society.

So, this is our attempt to try and explain what the issues are, what the choices are, what the pros and cons are for that broader audience, and I'm hoping that we can do that. We'll try and synthesize this at the end. We have a very crowded schedule which were extremely pleased about it's hard to imagine you could have assembled a better group of people to discuss these issues than the ones we have. So, I'm just making a public plea to our speakers, that I made in private, which is try and to stick to our time schedule so everybody can get a fair shot.

We're going to start with a conversation with Larry Summers the former Treasury secretary who has raised this issue in public and is going to set the scene for us, and then my colleague Louise Sheiner will come up here and introduce a panel that we're going to have to discuss the alternatives. So, Larry Summers.