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Considerations for a Post-Pandemic Monetary Policy Framework

ABSTRACT The Federal Reserve's 2020 strategic framework for monetary policy is sufficiently broad and flexible to face up to the wide-ranging challenges and uncertainties that are likely to emerge over the next many years. The 2020 revised framework addressed challenges that surfaced under the 2012 strategy and effective lower bound complications following the global financial crisis. Additions in the 2020 framework were intended to further anchor inflation expectations and preserve as much interest rate capacity to fight emerging recessions as a 2 percent inflation objective allows. I review the rationale for the inclusion of flexible average inflation targeting and refocusing on employment shortfalls. While the 2020 framework remains a sturdy foundation for monetary policymaking, I discuss implementation issues and suggest a few improvement opportunities that may help combat the challenges arising from the choice of a low 2 percent inflation objective.

As the Federal Reserve's periodic review of its strategy begins later this year, scholars, financial market participants, and central bank officials will properly debate the pros and cons of making material adjustments in monetary policy strategy for the next five years and longer. Although I have never shied away from diving into detailed assessments of monetary policy strategies and actions, I have come to appreciate that the public likely has in mind two simple and plainspoken questions: Will the Fed keep

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inflation low, and can the Fed prevent or at least ease the pain of a recession? The Federal Open Market Committee (FOMC) adopted the 2020 monetary policy framework in the summer of 2020 to deliver on these key challenges, and it remains a complete and flexible framework for delivering on these expectations.[1] It was also a substantial improvement over the 2012 initial framework, which omitted many important issues that the FOMC struggled with in the intervening years (see Bernanke 2022). In arriving at my positive assessment, I lean heavily on four key monetary policy observations that portray a successful path for mainstream US monetary policymaking. These observations essentially rise to the level of principles or tenets. They describe patterns of nimble and responsive policy actions and a strategic approach that remains mindful of the required capacity of the federal funds rate to address the onset of recessionary dynamics. The 2020 framework addresses these observations well. The strategy is flexible and allows quick adjustments in policy stances, though prudent implementation of the strategy is always an important tactical element for success. I suggest that the recent delayed tightening response in 2021–2022 following the implementation of flexible average inflation targeting (FAIT) in September 2020 is just such a tactical glitch.[2] Distinguishing between material strategic shortcomings and imperfect tactical execution is important for maintaining strategic focus in the framework document. The 2020 framework made many improvements on the earlier excellent but incomplete 2012 framework. Indeed, as I discuss below, the strategic omissions from the 2012 framework suggest it was a compromise viewpoint of the nineteen-person committee.[3] Those compromises had consequences in the years that

1. The FOMC has published its Statement on Longer-Run Goals and Monetary Policy Strategy annually since 2012. In its overview on the Federal Reserve website, the term "monetary policy framework" is used at the outset. Although the overview and the Fed's web page refer to more than simply the annual statement, I will typically use "2012 framework" and "2020 framework" to refer to those annual statements on monetary policy strategy, unless it is unclear. I will also use "long-run (LR) framework" when the year is less relevant.

2. Evans (2024) elaborates on the use of thresholds and the role of escape clauses. See Clarida (2024) for a related discussion of this strategic distinction.

3. Some FOMC participants from that time refer to the 2012 framework document as "the consensus statement" (Lacker 2020; Levy and Plosser 2024). This is not the typical reference; see, for example, Federal Reserve Board, "Review of Monetary Policy Strategy, Tools, and Communications," https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm, and the associated documents. But "consensus" is an interesting label, describing what has been agreed to by most or all. The absence of other important details is a tell on how the 2012 framework was a compromise.

followed.[4] Hence, Chair Jerome Powell's view that a periodic strategic review was good hygiene for central banks also led to many changes to the 2012 framework.

In the context of these four tenets, I look for a monetary policy framework that aligns with nimbleness, responsiveness, and care to maintain the recession-fighting capacity of the federal funds rate (FF-capacity). In reviewing the 2020 framework, I argue that it meets these criteria and represents a sturdy foundation for the Federal Reserve. Next, I address several recent critiques of the framework, looking for cracks in the foundation: (a) the implications of the asymmetry of FAIT and employment shortfalls for providing symmetry or skewness in inflation; (b) a further assessment of the role of employment shortfalls; (c) perceptions that modest underruns of 2 percent inflation are a minor flaw, even if persistent; and (d) the difficulties of incorporating a more robust approach to guarding against financial instability risks within the long-run (LR) framework for monetary policy.

Finally, although I argue that the 2020 LR framework remains a sturdy strategic foundation with only minor cracks (if any), the Fed's upcoming framework review does point to a number of improvement and clarification opportunities. As part of the review process, my suggestion list for the FOMC includes:

- Make an affirmative case for the personal consumption expenditures (PCE) inflation objective, $\pi^* = 2$. Define, defend, and own 2 percent. I strongly agree with Kohn (2024).
- State clearly that the π^* objective is a symmetric one and define objective measures to evaluate success. Or, if true symmetry is a nonstarter because planned overshooting is too hard (for example, FAIT), the statement should protect the committee's credibility by indicating the committee's preferences for asymmetric inflation objectives and define them. Don't just say the objective is 2 percent and then fail to average 2 percent over time.
- Regarding opportunities for clarifying communications approaches, I offer viewpoints on the role of federal funds rate projections in the Summary of Economic Projections (SEP), learning to live with forward guidance strategies, and potential uses of alternative scenarios perhaps in line with Bernanke (2024).

Naturally, the FOMC will deliberate over these and other issues.

4. While implementation documents were published describing balance sheet programs, the absence of their mention in the 2012 strategy was noteworthy, and the 2019–2020 review strived hard to address some of them.

I. Background to the Adoption of the Fed's LR Strategy Document in 2012 and 2020

Early in Powell's tenure as the Fed chair, he called for a strategic review of the FOMC's 2012 framework. Although he indicated that a periodic review was simply good hygiene for a central bank, the extensive 2019–2020 review and committee deliberations culminated in a 2020 framework that made extensive changes to the earlier statement. This followed a careful review of the Fed's postwar experience, the path to price stability, and more recent challenges since the adoption of the 2012 framework. This process highlighted many fruitful areas for framework improvements.

Following the emergence of unacceptably high inflation rates during the Great Inflation period, 1965–1982, the Federal Reserve struggled to bring inflation down to levels that were truly consistent with their mandate for price stability. Following the Humphrey-Hawkins legislation of 1978, the maximum employment mandate received heightened focus too. The Fed policymakers had always communicated about their policy actions in ways that cited both mandates, but the precise way in which policy formulations considered both requirements was not always clear to the public. Paul Volcker broke the back of double-digit inflation, raising short-term interest rates to near 20 percent and causing a deep recession in 1981–1982. Alan Greenspan inherited a lower but still objectionable consumer price index (CPI) inflation rate of roughly 4 percent in 1987. Over the next fifteen years, his leadership allowed monetary policy to reduce inflation more consistently toward 2 percent by the early 2000s.[5] These actions were taken and outcomes achieved without an explicit inflation objective by the Federal Reserve.

Ben Bernanke guided the FOMC to an explicit strategy for monetary policy that stated that the inflation objective was 2 percent based on the PCE price index. It constructively discussed the issues associated with inferring benchmark measures for maximum employment, and it described a balanced approach for addressing conflicts in the inflation and employment objectives. The FOMC adopted the framework in January 2012, and this was a watershed achievement. It was a strong step forward for the Fed. Still, forging a consensus for this explicit strategy took considerable time and effort and was not accomplished until well into Bernanke's second term as the Fed chair.

5. Bureau of Labor Statistics, "Consumer Price Index for All Urban Consumers: All Items in U.S. City Average," retrieved from FRED, https://fred.stlouisfed.org/series/CPIAUCSL.

Reading the document today and recognizing the challenges that the committee had faced through 2011 give the appearance that this was very much a compromise strategy. It seemed unremarkable at the time that the strategy referred only to "monetary policy decisions," "setting monetary policy," and "monetary policy actions" (Federal Reserve Board 2012a). For example, the 2012 LR strategy document never mentioned that the federal funds rate was its policy instrument nor that the Fed recently had employed many additional tools. But the policy actions were anything but typical. The Bernanke Fed had taken extraordinary actions in the prior three years: 2008 agency debt purchases, 2009 quantitative easing (QE1), 2010 QE2, and the 2011 maturity extension program (MEP), which sidestepped political criticisms by maintaining the size of the System Open Market Account (SOMA) and not expanding the balance sheet. And in a major strategic development that turned out to be at least three years premature, the Fed had even published initial exit principles from its asset purchases programs in July 2011, which many inferred as guiding moves away from accommodation but were overcome by events within weeks (Federal Reserve Board 2011a).[6] And then, open-ended QE3 and threshold-based forward guidance were implemented in the fall of 2012, the first year of the LR framework. Although "monetary policy actions" may be thought of as elastic phrasing, the full implementation of policy from 2012 to 2020 required filling in many blanks in the existing 2012 framework. With respect to key policy options, like asset purchases and unwinding, the lack of balance sheet implementation details through the economic cycle suggests that many compromises were made to avoid conflicts. Powell's strategic refresh initiative was certainly good hygiene, but is it no wonder that there was so much cleanup work for the 2020 LR strategy refresh?

The refreshed 2020 framework put more context on the economic fundamentals that led to the use of additional monetary policy tools. The strategy stated that the primary tool of monetary policy was the federal funds rate. Over time, the longer-run level of the funds rate consistent with maximum employment and price stability had declined. This increased the risk that policy would be constrained by the effective lower bound (ELB) and that other actions would be needed. The framework referred to a state-contingent policy that would intentionally induce moderate overshooting of

6. The balance sheet strategies were implemented and refined in auxiliary documents. Although these involved tactical and operational details, their juxtaposition to key strategic choices of policy instruments in the Fed's strategy needs to be acknowledged, discussed, and assessed for effectiveness and completeness.

2 percent inflation following a period of persistent inflation below 2 percent. This is colloquially referred to as flexible average inflation targeting (FAIT), and I will use that term despite its imprecision. The maximum employment mandate was recast to focus on the shortfalls in employment. And monetary policy would use all tools at its disposal, though none were mentioned beyond the federal funds rate. Changes were necessary, but these were bold and breathtaking.

Critics have decried how much of an overreach these changes were (for example, Levy and Plosser 2022). In some versions of this critique, the 2020 LR strategy document was larded up with a bunch of poorly decided makeup policies owing to becoming enthralled with hitting the 2 percent inflation objective from below. And then the return of extraordinarily high inflation rates in 2021 during the pandemic reinforced for many that this was a foregone conclusion given the supposed end of preemptive inflation-fighting policies and the ill-considered nature of FAIT. With PCE inflation hitting 7 percent in 2022, did the Fed's new policy *allow* inflation to overshoot its objective by 5 percentage points?[7] Or was the global rise in inflation inevitable? It is certainly fair to entertain the question that the 2020 LR strategy document was an overreach. Was it? Had the Fed lost sight of its key objective, price stability? Let's first review four basic observations regarding good tenets for monetary policy over the last many decades.

II. Four Observations Regarding Successful Monetary Policy in the United States

It is beyond the scope of this paper to review the good and bad of the Fed's monetary policy from 1965 to today. There are many good treatments, for example, Meltzer (2009) and Bernanke (2022). Although it is difficult to limit the list of key monetary policy observations to a small number, here are four that I think are substantial and important for considering the completeness and flexibility of the next strategic framework in a post-pandemic world. Implementation details matter, but in the spirit of simplifying and focusing on the big rocks and not the pebbles, I propose four observations from the last sixty plus years that capture a large percentage of very good monetary advice (table 1).

7. Bureau of Economic Analysis, "Personal Consumption Expenditures: Chain-type Price Index," retrieved from FRED, https://fred.stlouisfed.org/series/PCEPI.

Table 1. Four Observations Regarding Successful Monetary Policy in the United States

Observation 1	The Fed has successfully fought high inflation by raising interest rates. • The only obstacle to raising rates sufficiently high is fear.
Observation 2	To respond adequately to emerging recession conditions, the Fed often has needed 500 basis points of policy rate reduction capacity (Yellen 2016).
Observation 3	Since the early 2000s, the FOMC has recognized that the effective lower bound (ELB) is a greater risk to its ability to achieve its dual mandate and has responded with additional policy tools. • FOMC policy hit the ELB in December 2008, March 2020, and arguably in June 2003.
Observation 4	Complex supply conditions, supply shocks, and geopolitical risks have increased the prevalence, persistence, and risks of elevated personal consumption expenditures (PCE) inflation when large changes in relative prices feed through to inflation. Recognizing the implied limitations on monetary policy is important. • What does monetary policy initially "look through" and when do second-round effects hit? • Examples include: tobacco litigation with nationwide cigarette tax increases in the 1990s; introducing a value-added tax (VAT), carbon taxes, and the like; extensive use of tariffs and trade policies; and external energy and commodity shocks.

Source: Author's compilation.

A strong, foundational strategy for LR monetary policy should recognize observations like these and clearly communicate how they will be addressed by the FOMC in the years ahead. This is crucial for the strategy statement. In addition, framework review deliberations will require judgments regarding where the strategic statements are complete and when the tactical considerations to implement the strategies begin. There may be more art than science here, and my earlier characterization of the 2012 and 2020 frameworks may have drawn the lines more boldly than many. Nevertheless, key strategic questions are: How well does the 2020 LR framework embrace these four tenets? Completely? Flexibly? My assessment plan proceeds as follows: I will initially assess the two frameworks on the basis of observations 1–3, since those had occupied the committee's attention since 2012. After those assessments, I take up observation 4. The supply and geopolitical risks captured in observation 4 were not unknown to the FOMC during the 2019–2020 review, but they were viewed as unlikely and not in need of additional strategic refinements. An earlier example from the March 2011 Tealbook A alternative simulation provides an instructive case of how this was likely considered by the FOMC under both frameworks (Federal Reserve Board 2011b).

III. A Quick Tour of Why the 2020 Framework Remains Sturdy

III.A. Both 2012 and 2020 LR Strategies Allow the Fed to Raise Rates Arbitrarily High in Order to Reduce Unacceptable Inflationary Pressures; This Obeys Observation 1

Successful monetary policies that work to reduce inflationary pressures have relied on making financial conditions more restrictive. Although there was a reluctance to mention adjusting the federal funds rate or other associated nondiscount rates before the 1990s, the level of short-term interest rates was always a benchmark. Back in 1994 when the FOMC first started announcing policy actions, they first referred to "slightly" and "somewhat more pressure on reserves" as a proxy for increasing the funds rate 25 or 50 basis points. But confusion over the stilted language quickly gave way to explicit mention of the short-term policy rate. Greenspan and Bernanke raised rates from June 2004 well into 2006 in order to reduce inflationary pressures. And Janet Yellen and Powell responded similarly, beginning in earnest in 2016 through 2018. And most recently, once the Powell FOMC began, they had no shyness in raising the federal funds rate quickly to 5.25 to 5.5 percent by July 2023 in order to reduce PCE inflation from its peak rate of 7 percent (Federal Reserve Board 2023).

Both LR strategies envisioned actions like this. Nothing in the refreshed 2020 framework inhibited the Powell FOMC in 2022–2023 once they were of a mind to engineer highly restrictive financial conditions. This strategy aligns completely with observation 1. The fact that FAIT was being implemented according to the September 2020 FOMC statement's forward guidance was a notable complication; the implications of this are discussed further below in the context of all four observations.

III.B. The Primary Tool of Monetary Policy Is the Short-Term Interest Rate and 500 Basis Points May Be Needed to Address Recessionary Dynamics (Observation 2)

Although observation 1 is always feasible since there is no bound to how high interest rates can go, nominal interest rates are effectively bounded at or near zero. Although it seemed unimaginable in the 1970s with high inflation and interest rates, central banks became increasingly concerned about the ELB on nominal policy rates after Japan's monetary policy became mired at zero in the late 1990s and beyond. The federal funds rate was at the ELB of zero to 0.25 percent in January 2012 when the LR strategy was adopted (Federal Reserve Board 2012b). In her 2016 speech at Jackson Hole,

Chair Yellen (2016) discussed the historical experience regarding federal funds rate cuts and how much FF-capacity was typically needed to mitigate economic downturns. Five hundred basis points appears to be a reasonably conservative estimate of how much should be in reserve for the central bank. Yellen's speech is excellent and wide-ranging in discussing the tools that the FOMC used following the global financial crisis and future tools that would likely be useful and effective. At the ELB, she cited a Fed analysis by David Reifschneider (2016) that asset purchases and forward guidance together could perhaps allow for adequate additional accommodation when FF-capacity was limited to only 300 basis points before a recession.[8]

III.C. Recognizing the ELB Risk and Using Additional Policy Tools (Observation 3)

As the discussion makes obvious, observations 2 and 3 are joined at the hip. Nominal interest rates around the world were trending lower from 2000 onward. These secular changes arose owing to several changing features. First, the initial adoption of inflation targeting regimes by New Zealand and Canada had spread more broadly. Inflation targeting around the world was contributing to lower inflation rates. Second, the choice of inflation target was coalescing around 2 percent, and this was lower than most previous experiences. Third, real interest rates and neutral interest rates (r^*) were similarly trending lower for a variety of reasons that were external to explicit monetary policymaking (see Laubach and Williams 2003). The US experience preceded the global financial crisis: The FOMC arguably flirted with the ELB in 2003 when the funds rate was lowered to 1 percent. Concern over institutional features of money markets and fee structures, among other issues, led to the FOMC's soft forward guidance in August 2003 (Federal Reserve Board 2003). When the Fed began raising the funds rate in June 2004 (Federal Reserve Board 2004), the entire yield curve displayed more sluggishness owing to these features, judging by the commentaries on low ten-year Treasuries by Greenspan (2005)—conundrum, Bernanke (2005)—global saving glut, and other scholars (for example, Caballero 2006)—shortage of safe assets.

Clearly, the Fed has to be mindful of these ELB limits for federal funds rate settings and pursue the most effective overall policy actions. The

8. Reifschneider (2016, 2024) provides good examples. Not surprisingly, Yellen's list of possibilities is regularly discussed in these framework assessments: Asset purchases, forward guidance, and a higher inflation objective were prominently discussed. Other nonmonetary facilitators included enhanced automatic fiscal stabilizers and structural support efforts to increase productivity growth rates.

complications for central banks around the world became evident following the global financial crisis and European sovereign debt default concerns. The Fed policymakers were certainly struggling to provide additional accommodation at the ELB as they considered the strategy required, and there was controversy. In March 2009, the FOMC announced QE1, which included $1.25 trillion of total mortgage-backed securities purchases, $200 billion of total agency debt purchases, and $300 billion of Treasury purchases. In the fall of 2010, the FOMC announced QE2, which included $600 billion of Treasury purchases (Federal Reserve Board 2009, 2010). In the summer of 2011, the FOMC decided that additional monetary policy actions were needed, and political criticism of QE1 and QE2 was intense. The FOMC announced its MEP in 2011, reducing duration in financial markets by exchanging its SOMA holdings of short-term Treasuries and replacing them with long-term Treasuries. This preserved the size of the balance sheet and reduced external criticism somewhat. The MEP experience highlights the FOMC's discomfort with increasing the SOMA balance sheet (seemingly without bound) and their efforts to avoid that perception while still delivering necessary accommodation. But as 2012 evolved, the FOMC was faced with further forecasts of inadequate employment growth in the summer of 2012, leading to open-ended QE3. Interestingly, the state-contingent QE3 threshold stated the need for a substantial improvement in the labor outlook, and this seems to rhyme with the January 2024 FOMC guidance that the committee doesn't expect to lower rates until it has confidence in the path of inflation to 2 percent. Forward guidance comes in many flavors, soft and explicit.[9]

IV. Initial Assessment and Addressing Observation 4

IV.A. How Well Does the 2012 LR Strategy Cover Observations 1–3?

Heading into the framework review in early 2019, it seemed clear that the 2012 framework needed substantial adjustments, and the previous discussion covers many of these. The primary accomplishment of the 2012 LR strategy

9. The Fed's expert staff and the FOMC participants listed other tools during these early difficult times. Most were met with skepticism. Nominal GDP targeting was mentioned but never seriously considered. I introduced state-contingent price-level targeting at the August and September 2010 meetings (Evans 2010, 2012), but that was similarly dismissed as Bernanke was leading the committee to QE2 with a fixed $600 billion purchase. Later, Bernanke warmed to this tool after he left the Fed (Bernanke 2017). Subsequently, I argued, in speeches and at the FOMC meetings for over a year, for threshold-based forward guidance regarding federal funds rate's liftoff conditions, beginning in September 2011, and that was adopted in December 2012 (Evans 2011a, 2011b).

was making the inflation objective explicit at 2 percent for PCE inflation while maintaining fidelity with the dual mandate. Many aspects of the 2012 strategy were primarily just delineating mainstream monetary policymaking. It described well the dual mandate objectives and how conflicts in the maximum employment and price stability objectives would be assessed with a balanced approach toward each goal. But given the Fed's experience at the ELB to date from 2009–2011 and the mixed assessment among participants of the need for and effectiveness of alternative policy tools at the ELB, more strategic clarity seemed essential. For the three years from 2010–2012, each summer meeting faced another dawning realization that the economic recovery was too shallow to reduce unemployment in line with its maximum employment mandate, inflation remained below the 2 percent objective, or both. The FOMC took strong actions to augment accommodation with asset purchases (QE2), rearranging its SOMA holding maturities (MEP) and state-contingent purchasing programs (open-ended QE3) and using threshold-based forward guidance (Evans 2011b). But each decision seemed fraught, and greater strategic clarity for the use of these noninterest rate tools might have increased their effectiveness and timely implementation. Instead, each new iteration seemed to be met with reactions such as "not again?" and public commentary about "QE4EVER."

Strategic vagueness over disagreements on important judgments regarding maximum employment likely delayed policy actions. How much had the sustainable rate of unemployment increased? As unemployment declined from 10 percent and eventually fell below the 6.5 percent forward guidance threshold in April 2014, underrunning the 2 percent inflation objective in any single year often seemed minor, though the cumulative shortfall was substantial.[10] As the worst of the crisis receded, achieving clarity and consensus on the appropriate degree of policy accommodation was challenging. How long would extraordinary measures be required? How could the federal funds rate be increased in an environment with excessive levels of reserves? When and in what sequence would the complex composition of accommodative factors be withdrawn? The existing 2012 framework had been augmented with a patchwork of sensible implementation details for these transitions, but they remained work in progress well into 2019. A new agreed LR framework providing greater strategic clarity for policy accommodation at the ELB and transition directions would better facilitate deliberations among FOMC members on when, how, and how long to provide additional

10. Bureau of Labor Statistics, "Unemployment Rate," retrieved from FRED, https://fred.stlouisfed.org/series/UNRATE.

accommodation while at the ELB. At least, this was the expectation as of the end of 2019 before the pandemic hit.

IV.B. The 2020 LR Strategy Took Seriously the Need to Facilitate Strong Policy Responses When the Federal Funds Rate Was at the ELB

The 2020 LR strategy addressed the difficult task of defining symmetry by example. It described a state-contingent experience where persistent inflation underruns seemed incompatible with symmetric outcomes for inflation. Following periods when inflation has been running persistently below 2 percent, appropriate monetary policy would aim for inflation moderately above 2 percent for some time.[11] This underrun criterion provides a natural framing for when the FOMC should contemplate this more extreme policy response. At the ELB, this state-contingent judgment would require the FOMC to provide accommodation with noninterest rate tools. In principle, this approach allows the committee to calibrate the level of accommodation that is most consistent with a moderate overshoot. So, the strategic instruction to consider FAIT provides a timing and potential calibration for the use of *all available tools*. This aligns well with what was learned from the 2009–2014 experience—that the committee may need to use QE policies aggressively to achieve its goals.

The 2020 LR strategy adjusted the committee's maximum employment focus to narrow its attention to only employment shortfalls. This has been controversial. A justification for this approach is this. At times following the global financial crisis when unemployment was high and inflation pressures were considerably below 2 percent, the committee spent a lot of time worrying about how much the natural rate of unemployment had increased. Circling behavior of the Beveridge curve played a role in these assessments (see, for example, Kocherlakota 2010). Later unemployment declined toward 4 percent and inflation was below 2 percent with low inflation expectations (see, for example, the December 2017 FOMC statement). The critical issue regarding low unemployment rates was always about rising inflation pressures, and not the macroeconomic perils of a vibrant labor market per se. Once employment shortfalls have been eliminated and the labor market is vibrant, the policy concerns are regarding inflation pressures. The 2020 framework essentially instructs the committee and commentators to build their best inflation outlook and risk assessment using every relevant indicator

11. Conservative central bankers likely think that 2.3 percent PCE inflation is on the edge of moderate; see Evans (2024) for an example.

of inflation, but not to extinguish labor market success in the absence of real inflation pressures. Monetary policy can still be preemptive regarding inflation risks, but the contemporaneous labor market contributions need to be well projected onto current inflation risks (not just unconditional correlations). Of course, this has been controversial from a mainstream macro perspective because it harkens back to the Barro and Gordon (1983) pursuit of unsustainable employment outcomes; I discuss this further below.

Another important dimension for ensuring policymakers are willing to facilitate strong policy responses and use QE aggressively is the assurance that these are temporary (that is, nonpermanent) increases in the Fed's balance sheet. The Powell Fed had the task of designing the reduction in the earlier balance sheet expansions to their ultimate concluding levels. The earliest exit principles and policy normalization plans were handled as separate principles statements, and that seems appropriate for operational and tactical details. But the committee had many discussions over whether the final size of the balance sheet would involve abundant or ample reserves, after deciding against a return to the scarce reserves regime prior to 2008. Chair Powell has at times stated sympathies with a general round-tripping strategy for the balance sheet. This presumably involves returning an outsized SOMA balance sheet to lower levels similar to those prior to the QE expansions, but that supported the larger contemporaneous size of the economy and financial market functioning. In this best case, reserves would be ample. Round-tripping preserves the integrity of QE as a temporary policy tool when the federal funds rate is constrained by ELB. This notion was nowhere described in the January 2012 strategy, as there was no mention of QE.[12] Even the 2020 refresh only mentioned the use of the "full range of tools," but helpfully after an extensive discussion of the federal funds rate as its primary tool (Federal Reserve Board 2020, par. 2). It seems useful to enshrine some concept of balance sheet round-tripping in the LR strategy refresh.

To sum up the key attribute for the 2020 framework relative to the 2012 framework: It seems important to more clearly describe potential plans and strategies for confronting the FF-capacity problem imposed by material ELB risks, and a plan like FAIT helps define and generate

12. Separately, early descriptions of possible exit strategies were included in the June 2011 FOMC minutes. Although they did provide some information, they were preliminary and are difficult to find on the Federal Reserve website. See Federal Reserve Board, "Minutes of the Federal Open Market Committee, June 21–22, 2011," https://www.federalreserve.gov/monetarypolicy/fomcminutes20110622.htm. These strategies were also described in the July 2011 *Monetary Policy Report* (Federal Reserve Board 2011a).

symmetry around the 2 percent inflation objective and support anchoring inflation expectations.

Before turning to the challenge of observation 4 and high inflation risks, I will note a few additional contrarian challenges with respect to observations 1–3 that I take up later. First, what if aggressive QE and $\pi^* = 2$ are not compatible with achieving dual mandate objectives over the expected time period (or at all)? Is a long or longer period of time at ELB compatible with financial stability in the US economy, with our current financial system, and globally? Second, what if the inflation undershoot is small even if it is persistent? If, for example, the ten-year average for undershooting inflation is 25 basis points per year, would correcting this downward bias only result in adding 25 basis points of additional FF-capacity, and is that worth any additional financial instability risks? I discuss these issues in section V.

IV.C. The Challenge of High Inflation from Unexpected Sources. The Fed Must Always Keep Their Eyes on Inflation, Even When the Unexpected Sources Originate from Changes in Relative Prices (Observation 4)

Although the 2020 LR framework seems sturdy, it reads as if aggregate demand shocks and divine coincidence are dominant (as seemed true prior to the 2020 pandemic). The rebound from the sharp pandemic recession challenges this view. Large fiscal support programs helped produce the initial period of strong consumer demand. The composition of this demand was skewed toward consumer goods over services, owing to the limited opportunities to enjoy in-person services outside the home. The magnitude of the composition change was reminiscent of wartime production changeovers. While strong demand and composition effects undoubtedly contributed to substantial relative price increases in 2021, additional contributions emerged from reduced supply and fractures in complex domestic and international supply chains, as well as heightened geopolitical risks across international boundaries. Many critics have stated that the 2020 framework was poorly designed and exacerbated inflation pressures (for example, Levy and Plosser 2024). As a contributor on the FOMC in favor of the September 2020 FAIT approach, who saw PCE inflation peak at 7 percent in 2022, I take this criticism very seriously, and it requires a careful assessment.

In another essay (Evans 2024), I have described how I think the failings of the September 2020 FAIT policy represented tactical omissions, not strategic errors. An aggressive policy pivot engineered by Chair Powell in June 2022 combined with anchored inflation expectations to play key roles

in limiting the ultimate increase in inflation and delivering a reasonably quick return toward the vicinity of 2 percent without a large or any recession ensuing (so far). If the Fed had announced an explicit inflation escape threshold for exiting FAIT—perhaps as high as 3.5 percent PCE inflation on a six-month basis (as one example)—the FOMC would have had reason to discuss and cover to pivot from the FAIT and ELB and move more quickly to a neutral setting or higher as needed.[13] Still, the United States continued to face substantial pandemic risks in the fall of 2021 owing to the emerging Delta strain of the coronavirus, and later the Omicron strain. But moving toward neutral may have been chosen under a more explicit exit threshold to better balance these risks. These seem like tactical improvement opportunities rather than an outright strategic veto of FAIT, as long as the committee continues to seek symmetry by averaging 2 percent over time.

Of course, the choice in the next framework review may be to materially reduce the strategic commitment to accommodative policies at the ELB. If so, this choice should be justifiable within key economic analyses of the alternative policies. Specific dynamic model analyses should be produced and scrutinized to support these less accommodative views. Based upon so many previous assessments of more restrictive approaches, this seems like a very high bar to clear. I have two related analyses in mind.

First, the excellent Jackson Hold speech by Chair Yellen (2016) described an array of additional policies to mitigate the ELB, two of which were QE and forward guidance. She cited research work by Reifschneider (2016) that calibrated appropriate policy responses. More recently, Reifschneider (2024) analyzes counterfactual policies where the Fed pivoted in mid-2021 to raise rates to much higher levels than the current funds rate of 5.13 percent (in early September 2024). In his counterfactual, inflation comes down more quickly, though it still rises to the high rates of recent experience in 2022. Also, labor markets and the economy enter into downturns. Reifschneider's analysis suggests that the Fed's delayed March 2022 pivot didn't contribute much to the peak inflation rate of 7 percent, though it may have prolonged the high inflation experience by a year. Anchored inflation expectations

13. As it turns out, the 3.5 percent escape threshold for core PCE would have been breached with the April 2021 release (4.07 percent over six months). The extraordinary relative price increases were massive, with used car prices alone increasing by 10, 7, and 10 percent on a monthly basis from April to June. But the initial breach would have been too much to ignore, and a committee discussion would likely have begun to shift policy somewhat toward neutral earlier. Clarida (2024) also discusses the delaying role played by the September 2020 forward guidance statement relative to the 2020 strategic framework.

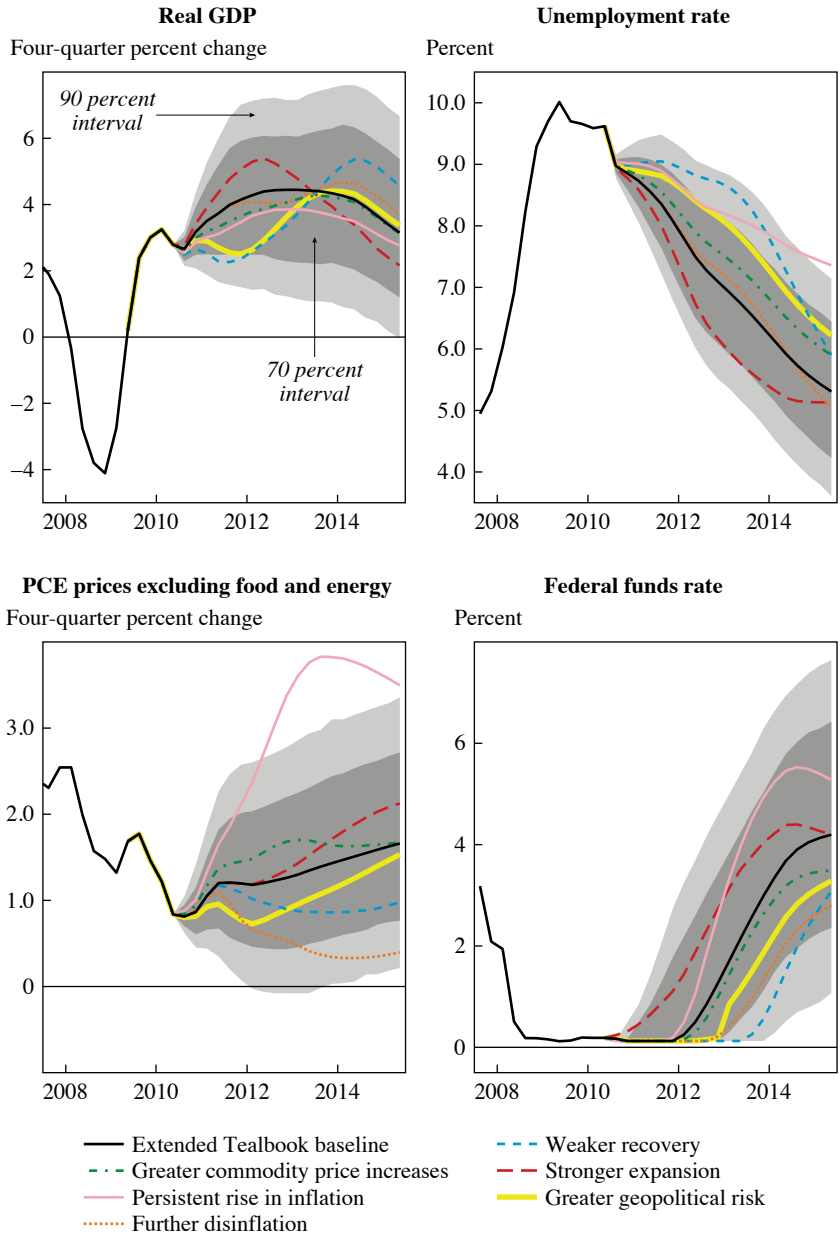
are clearly an important vehicle for this outcome in his study. These model analyses allow for a potential unanchoring of inflation expectations, but the aggressive policy responses earn the anchoring outcome. The rapid rate increases in 2022 and into 2023 were likely similarly important.

Second, it is simply amazing how many things had to go wrong during the pandemic to lead to the rapid rise of PCE inflation to 7 percent. How do policymakers plan for this? The FOMC discussions in early 2011 are an instructive case. In early 2011, some FOMC participants expressed concern that the low level of policy rates and aggressive QE1 and QE2 would be leading to high inflation before long. At the time of the March 2011 FOMC meeting, unemployment was 8.9 percent, and core PCE inflation was estimated to be 1.2 percent in Q2, at an annual rate. Inflation pressures were percolating into the June meeting when core PCE inflation was estimated to be 2.2 percent in Q2. This rise in inflation was due to weakness in auto inventories raising car prices and higher commodity and import prices. Without irony I will report that these were expected to be transitory influences, and they were. But recognizing these risks earlier, the Federal Reserve Board staff at the March 2011 meeting presented alternative scenarios, one with exceedingly high inflation as the outcome. Their chart is reproduced below (figure 1). The Tealbook alternative scenario titled "Persistent Rise in Inflation" (Federal Reserve Board 2011b) throws many new challenges at the inflation outlook, and it has an eerie similarity to the September 2020 setting. The March 2011 alternative scenario was superimposed on a baseline inflation projection that barely had four-quarter average core PCE inflation rising to 1.5 percent through 2014. In the alternative scenario, energy and commodity prices rise sharply; this feature alone was the focus of one alternative. But in this more elaborate "Persistent Rise in Inflation" scenario, the FOMC has also misjudged the natural rate of unemployment by a full percentage point; supply bottlenecks have emerged from stronger economic activity following the initial steep economic downturn; and long-run inflation expectations were assumed to be unusually sensitive to any persistent movements in headline inflation. These features greatly amplified the inflation outcome.[14]

This was truly the "kitchen sink" of inflation risk scenarios. In my experience reviewing alternative scenarios from Tealbooks over the years, many attempts to display high inflation risk outcomes rarely made it past the

14. In these scenarios, another common modeling approach for enhancing inflation responsiveness is to assume a steepening in the Phillips curve.

Figure 1. Forecast Confidence Intervals and Alternative Scenarios



Source: Reproduced from Federal Reserve Board (2011b).

Note: Shading represents 70th and 90th percentile uncertainty bands. Confidence intervals are based on the FRB/US stochastic simulations.

70th percentile.[15] The more typical scenarios display an important role of anchored inflation expectations in these models for restraining inflation pressures, as well as the less persistent effects from these sources. But in this "Persistent Rise in Inflation" scenario, an unmooring of inflation expectations is allowed and engineered to some extent, though the strong policy response kept the risks more contained. All in all, the Board staff provided the committee with useful guidance on how to respond to emerging inflationary pressures if and when that inflation risk recognition became firm. And eleven years later, the Powell Fed responded similarly in strong fashion beginning in June 2022.

This episode seems like a worthy case study example for the standard that Bernanke (2024) suggests is important for central banks, and that may likely be another important tactical ingredient for future framework discussions. Of course, the alternative analyses here are conducted using the Board staff's macro models. Other models may highlight greater risks and costs, but those models need to step forward and be put on the table and assessed on a similar basis.

Just to be clear and sum up, observation 4 reminds us that adverse, unlikely events do occur, and monetary policy needs to be mindful and responsive. This is in line with observation 1 too. The 2020 framework allowed the Powell Fed to address the rare series of supply shocks and constraints that emerged following the pandemic shutdown, although the commencement was tardy. The model analyses affirm the belief that anchored inflation expectations—a hallmark of the 2020 framework objectives—were crucial mitigants.

V. How Sturdy? Looking into the Cracks by Considering Major Critiques

Having reviewed the 2020 LR framework's ability to address the four key observations for good monetary policy, my opinion is that the framework remains a sturdy foundation for monetary policy for the foreseeable future. But it is important to consider where cracks may be evident or nascent. I have mentioned a few already. I discuss further some major critiques regarding asymmetries, employment shortfalls, the cost of persistently

15. The error bands are somewhat misleading for most alternatives a reader has in mind. The error bands displayed graphically are strictly only interpretable on a point-by-point basis. Most readers will have in mind an alternative path for inflation over a period of time that covers many quarters (a joint hypothesis).

undershooting 2 percent, and the implications of "humbly doing less" in the name of reducing financial instability risks.

V.A. How Can Two Asymmetries Create Symmetry?

The 2020 framework introduced two asymmetries into the strategy with FAIT and restricting strategic focus to employment shortfalls. How can anyone argue that this is in the name of achieving symmetry in the inflation process? And did the Fed take its eye off the inflation objective in September 2020 owing to these asymmetries?

Chair Powell has described the September 2020 forward guidance as a strong implementation of the refreshed 2020 strategy. At the time of the September 2020 FOMC meeting, the most recent unemployment rate was 8.4 percent for August and core PCE inflation was below 2 percent (that is, 1.4 percent). FAIT surely delayed the Fed's tightening in response to the emergence in the April 2021 inflation releases of supply chain disruptions and shocks. But unemployment remained above 5 percent until September 2021, and the Delta and Omicron COVID-19 waves were still imposing great damage on the United States and normal business enterprises in late summer and through the fall.[16] Beyond the US experience, high inflation was a global phenomenon. English, Forbes, and Ubide (2024) describe these international common features, and Bernanke and Blanchard (2023) implicate supply shortages strongly for the earliest stages of the US experience. Firmly laying blame on the 2020 framework's new strategic focus of FAIT and employment shortfalls needs to account for the similarities in these other foreign central banks' strategies and supply components. As a counterpoint, the Fed appeared to be navigating these special circumstances in a similar fashion to the March 2011 alternative simulation example.

Separately from these particular pandemic circumstances, my view is that there are two alternative asymmetries that warrant attention. First, central bankers are conservative by nature and are uncomfortable with inflation above their target. Rogoff (1985) discusses how conservative central bankers may provide a bias correction to the Barro and Gordon (1983) inflation bias generated by discretionary policy when central bankers prefer a lower unemployment rate than is sustainable. My purely casual observation is that central banks behave more like this than not. FAIT implementation in 2020 sought inflation to moderately exceed 2 percent for some time. One could ask: Why was this entreaty even necessary if inflation above

16. Powell's (2024a) Jackson Hole speech has an excellent accounting of these contributing factors.

the 2 percent target is viewed as an acceptable outcome on occasion, or even 50 percent of the time? Although no one explicitly stated how high the overshoot would be, it is possible to find policymaker comments that show discomfort if inflation reached 2.3 percent (see Evans 2024). "Modestly exceed" might seem more accurate, or perhaps less than modest. Second, the asymmetry of the ELB in terms of nominal interest rate responses (FF-capacity) induces a need for additional tools. It would seem a safe comment to mention that FOMC members and the public have difficulty judging the effectiveness of these tools (see Williams 2013 on relative federal funds rate and QE effectiveness under Brainard-style caution). As additional asset purchases are deemed necessary and more time is required at the ELB, external criticism builds and policymakers lose faith in their QE and forward guidance tools that direct them to hold the federal funds rate low for longer than they would typically prefer. This same discomfort is not evident for raising rates: If there is concern that inflation is still too high, they can raise rates further. Raising rates may make policymakers uncomfortable with greater risks of a downturn or a longer recession, but they have relatively strong confidence that they can achieve their inflation objective with these policies. After all, they can observe the reductions in consumer and business borrowing, and so on. This is substantially easier than finding evidence of increased consumer and business risk-taking with lower borrowing costs owing to QE and forward guidance. So my point is that policymakers likely have asymmetric confidence in their policy tools. Consequently, with asymmetric impediments in place via conservative central banker behavior and less trustworthy tools at the ELB, the introduction of additional asymmetries like FAIT and employment shortfalls would be intended to counteract these biases.[17]

V.B. What's the Deal with Focusing Only on Employment Shortfalls? Won't There Be Complications?

The 2020 framework includes a potentially troubling feature relative to much of the macro monetary learnings from the 1965–1982 Great Inflation era. The strategic document indicates that the FOMC should only focus on employment shortfalls. The force of this instruction is to rule out policy reactions that are based on low unemployment rates, even when perceived

17. Indeed, a robust control approach along the lines proposed by Hansen and Sargent (2003) would instruct policymakers to utilize their weak tools more forcefully. Stronger actions would increase the effectiveness of weak tools via larger multiples. And if they next discover that the tools are in fact much more powerful, then they have the ability to dial back the tools now that the goals have been achieved with somewhat greater ease.

to be below sustainable rates. A key message from Barro and Gordon (1983) and Kiley (2024) is that inflationary pressures are often unleashed when the central bank pursues unsustainable economic outcomes, no matter how noble. Pursuing an unemployment rate of 2 percent when it is currently 4 percent and the natural rate is a couple of percentage points higher than 2, that's dangerous, right? And yes, this feature by itself would likely unleash inflation, but that is not how I interpret the use of employment shortfalls in the 2020 statement.

I actually relied on this type of reasoning when I dissented against a 25 basis point funds rate increase in December 2017. The FOMC was in the midst of finally raising policy rates while simultaneously beginning the quantitative tightening runoff of assets in September 2017. I had agreed with earlier increases, as they were minor adjustments to escape the ELB floor. But inflation remained below 2 percent, and the FOMC statement noted that inflation compensation and expectations were also low. A chief rationale for continuing rate increases was that the federal funds rate's target range of 1 to 1.25 percent remained below neutral, and unemployment was low at 4.1 percent. I argued that we really didn't know that 4.1 percent unemployment was inflationary, against the views of the Board staff and others that the natural rate was above 4.5 percent (see Federal Reserve Board 2017). A sharp and apt rejoinder to my comments, though, was to ask me how I would feel if unemployment were to fall to 3.5 percent. My knees wobbled and I said I would be concerned. But I dissented because unemployment was not 3.5 percent, and this range of unemployment views illuminates concerns over bright-line boundaries of $u - u^*$ (actual unemployment rate – natural unemployment rate) as triggers for preemptive inflation-fighting actions. And by December 2019, unemployment was 3.6 percent and PCE inflation was around 1.5 percent. I read the 2020 framework as instructing the committee to construct their best inflation outlook and risk scenarios and to employ better nonlabor indicators. For participants who eschew versions of the Phillips curve, it is difficult to understand their unease with the narrower focus on employment shortfalls.

There is nothing in this strategy that eliminates preemptive policy moves to rein in emerging inflation threats. Low unemployment alone has been moved to the sidelines. But economic activity above its potential level as a factor leading to higher inflation remains, though substantial uncertainty typically exists regarding the level of potential output. By focusing on *shortfalls only*, the strategy requires separate or distinct identification of inflation pressures from other factors, proxies, and observations. After all, the common explanation for why low unemployment is bad for central

bankers is that it signals inflation pressures. There is very little in the literature about why low unemployment leads to intrinsic dysfunction in labor markets. Also, focusing on the quadratic loss in unemployment around its sustainable rate invites too much arbitrariness in deciding at what unemployment rate inflation pressures begin. The uncertainty is high around when $u - u^*$ turns inflationary. The debate in 2010 over how much the sustainable rate may have moved up—perhaps by 3 percentage points (Kocherlakota 2010)—leads to a greater reluctance to consider the more aggressive accommodations while inflation is below its objective with high unemployment.

Altogether, is the job harder? Yes, in terms of pulling the trigger for federal funds rate tightening, but this seeks to avoid costly economic restrictions that may not actually be needed. So focus on the intrinsic inflation risks, not the assumed collateral risks (unless those are justified by inflation developments, not just satisfied workforces).

V.C. What's the Big Deal If Inflation Undershoots 2 Percent Routinely Since That Is Price Stability? Is There a Cost of Undershooting π^* Routinely by a Few Tenths Each Year?

In the run-up to the January 2012 LR statement announcement, there were disagreements among policymakers over the choice of $\pi^* = 2$, with some favoring materially lower targets. Considering the inherent conservative nature of central bankers on average and these prior preferences, routinely undershooting 2 percent may suggest a lack of faith in the inflation objective and a credibility issue. Nevertheless, attempting to fine-tune inflation and economic outcomes is well understood to be a risky endeavor. On its face, it seems like a reasonable perspective is that missing 2 percent by a few tenths for several years seems like a minor issue. After years of loudly advocating that it is important to actually get to 2 percent from below after these undershoots, I have almost come to the view that at least achieving and averaging 1.75 percent may not be the worst outcome. Still, if the cost of such an underrun is minor and underruns are the practical likelihood when overshooting is uncomfortable, then the FOMC should not be afraid to more boldly say that the 2 percent inflation objective is merely aspirational. In this case, it would be more transparent to state that the FOMC is going to behave as if 2 percent is a ceiling that they are loath to breach, at least not often and certainly not by much. But I seriously doubt that policymakers would want to transparently state that. So where does this leave 2 percent?

On the idea that inflation outcomes a few tenths on either side of 2 percent shouldn't matter, in Evans (2024) I suggested that a better objective might be

the "reverse Trichet": PCE inflation should be above but close to 2 percent. A few tenths above 2 percent must be a minor miss, right? This small change would likely represent quite a change of attitude. After all, crossing 2 percent PCE inflation is likely viewed as a bright-line boundary. If policies committed to more strongly being above 2 percent but with the additional guidance of being close to 2 percent, perhaps intended inflation would more often average 2 percent.[18] Maybe the soft inflation ceiling would move from 2 to 2.2 percent.

Owing to my view of impediments to the Fed's ability to achieve 2 percent symmetrically without these strategic adjustments, I believe FAIT is an appropriate state-contingent policy choice to improve symmetric inflation outcomes around 2 percent. The implementation of that policy will likely vary depending on the composition of the committee at the time and their adherence. But it puts a marker in place for all committees to explain better their views on the symmetry around π^* relative to inflation's actual performance.

V.D. Financial Stability and Maybe Do Less

No strategic review would be complete without a good discussion about the role of financial stability for the proper conduct of monetary policy regarding its dual mandate objectives. A stable, well-functioning financial system greatly contributes to robust credit intermediation and efficient price discovery that support strong economic performance and price stability. Alternative monetary policy decisions clearly lead to differing levels of financial accommodation or restrictiveness. But sadly, monetary policy essentially involves only one channel for *all available tools*: Policy is accommodative, neutral, or restrictive. The Fed has a dual mandate to promote maximum employment and price stability: Attempting to hit two objectives is difficult enough to balance, unless the divine coincidence is strong. A third objective for enhanced financial stability (or something else) might require the Fed's current policy instruments to work against one or both of its current objectives. Other regulatory tools are available to address financial instability risks, but those regulatory responsibilities lie outside of the FOMC boardroom. How should the LR statement discuss this? Are non-Fed and Fed regulatory authorities unable to limit these instability risks, both in general and also during states of unusual settings for the policy tools? Must

18. An alternative with similar effect would likely be to define the inflation objective as a PCE inflation range of 2 to 2.5 percent. Conservative central bankers would likely spend considerable time with inflation in the vicinity of 2 percent (and a bit lower maybe).

unemployment and inflation miss their objectives for the sake of financial markets? This is always a tough discussion, with great practical consequences. And the allocation of legal authorities within the Federal Reserve System also makes this challenging when members of the Board of Governors meet with the reserve bank presidents. Regulatory responsibilities are vested solely in the Board.

These are issues that bear greater study and interaction with our best understanding of how economies would evolve under a wide variety of circumstances and policies. Some current suggestions range from humbly do less with current monetary policy tools in order to reduce financial instability risks (Group of Thirty 2023; Rajan 2023; BIS 2024) to establish clearer authorities within the Federal Reserve for monetary policy and financial policies, perhaps along the lines of the Bank of England's structure (see, for example, Kashyap 2024).[19]

Regarding humbly doing less, it is worth asking how the Fed's dual mandate responsibilities would be addressed. Detailed macro analyses by Reifschneider (2016) and Kiley (2024) show the need for additional tools when the federal funds rate is at the ELB. If doing less implies avoiding reducing the funds rate to the ELB unconditionally, then even greater use of additional tools is needed. Reifschneider's analysis employs QE when at the ELB, and Kiley demonstrates how threshold-based forward guidance for guiding extended periods at the ELB (beyond balanced-approach rules) is called for. Much additional work in this area seems necessary to assess its viability, although BIS (2024) is clear in suggesting policies that would allow a margin of safety for future policy ammunition by keeping inflation below 2 percent but fighting quickly if inflation rises above 2 percent. Diminishing the Fed's commitment to maximum employment and price stability seems like a nonstarter in the United States—unless Congress and the president change the Fed's mandate.

In each of these areas, the FOMC would do well to state more explicitly whether greater efforts may be forthcoming along these lines or not and to provide estimated time frames. Adding further explicit guidance for the FOMC regarding financial stability mandates is an enormous lift for the FOMC, and likely worthy of a completely separate strategic review.

19. Group of Thirty's direction involves a humble approach that avoids prolonged interventions; "realism in ambition" comes from BIS (2024, 65); and Rajan's (2023, 95) final chapter for central bank implications is titled "Less Is More."

VI. Concluding Suggestions for the Committee Review

My principal recommendation is that the FOMC carefully review the 2020 framework, with consideration of how well the framework addresses the four observations of sound monetary policymaking discussed above. The last five years have been a remarkable stress test of central bank principles. While I think the 2020 framework remains sturdy and appropriate and no abnormal degree of cracks in the foundation seems evident, that is a judgment for the committee. Of course, a number of opportunities for improvement and clarification exist.

VI.A. Build an Affirmative Case for 2 Percent

Everything starts with the FOMC's choice of $\pi^* = 2$. The FOMC should build an explicit, affirmative case for selecting 2 percent for their PCE inflation objective. Kohn (2024) recommended this, and I wholeheartedly agree. Powell (2024b) stated on *60 Minutes* that the United States has been well served by the 2 percent inflation objective. I agree that an explicit inflation objective is beneficial, but the jury is out on why 2 percent is the best. The FOMC should define the objective, explain it, defend it, and ensure that the next LR strategy properly owns the numerical goal.

VI.B. Symmetry

The framework should clearly state that the π^* objective is a symmetric one, or it should explicitly state its asymmetry preferences. Anchored inflation expectations have proven to be crucial in returning PCE inflation back to the vicinity of 2 percent, arguably with a soft landing, following the recent period of elevated inflation. Describing objective measures for evaluating inflation success and misses would help pin expectations down. Unnecessary vagueness about the committee's intended inflation distribution would continue to inject uncertainty unhelpfully. And as a corollary, reaffirming FAIT would seem to qualify as stating symmetry preferences; choosing tactics that allow explicit escape thresholds from FAIT when appropriate could reinforce its usefulness without jeopardizing symmetry.

VI.C. Should π^* Be 3 or 4?

Because extraordinary use of monetary policy tools at the ELB will always remain controversial, it seems worthwhile to at least discuss potential benefits of a higher inflation objective. Although a full-throated affirmation for the 2 percent objective would likely encompass these conversations,

I will mention a benefit that is often ignored. Raising π^* would lead to an unconditional increase in nominal interest rates and federal funds rates over time. This would raise FF-capacity and reduce the need or at least magnitude of QE purchases or duration of forward guidance. For those who dislike QE and forward guidance, a higher π^* is their friend, though I suspect few actually see things that way.

VI.D. Communications Policies

On the subject of communications, there is a long history of the FOMC chair appointing a special subcommittee to address complex communications challenges that arise over time or are evergreen. While it certainly makes sense to consider adjustments and improvements to the Fed's communications policies at the time of the LR framework refresh, it should be remembered that much of this is operational and needs periodic adjusting, not simply every five years. That being said, here are a few issues that many commentators regularly raise.

ARE THE EXPLICIT FEDERAL FUNDS RATE PROJECTIONS IN THE SEP REALLY NECESSARY? This seems like such a simple question to answer, I am always perplexed by its recurrence. The SEP projections are incoherent without knowing the policy projection assumptions for each set of projections—incoherent and indecipherable. FOMC participants for a long time have submitted economic projections for real GDP, unemployment, and inflation as part of the semiannual Humphrey-Hawkins monetary policy review process. The ingenious guideline attributed to Donald Kohn (director of monetary affairs, FOMC secretariat, governor, and later vice chair) was that participants should assume whatever policy rate path they thought was appropriate for monetary policy over the projection horizon. This made great sense, but each participant will have their own views as to the appropriate path. So the following dilemma was entirely possible: I could submit a virtually identical set of economic and inflation projections as another participant, but I might assume that strong accommodation was necessary and my counterpart might assume strong restrictive policies were needed. Making sense of the projections and their distribution would be impossible without some additional information that allowed distinguishing the two views. So yes, providing explicit funds rate projections is an important part of showing your work if you want to receive credit and inform the public.

WHAT IS THE APPROPRIATE ROLE OF FORWARD GUIDANCE? FOMC participants often speak in public as if they recoil from the use of forward guidance. Nevertheless, it is rare when the Fed is not using forward guidance.

Consider the committee's 2024 use of the word "confidence" in their FOMC statements: "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent" (Federal Reserve Board 2024, par. 3). Now compare that to the September 2012 FOMC statement announcing what became known as open-ended QE3: "If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability" (Federal Reserve Board 2012c, par. 4). What confidence and improving outlook share are a lack of specificity about the exit threshold. This was also the case with perhaps the initial forward guidance in August 2003: "In these circumstances, the Committee believes that policy accommodation can be maintained for a considerable period" (Federal Reserve Board 2003, par. 3). It is simply not credible that monetary policymakers will never provide forward guidance. As long as the FOMC issues meeting statements and speaks in public, there will be times when they engage in forward guidance. Although some clarifications on the use of forward guidance may be desirable, I do not expect much here.

ALTERNATIVE SCENARIOS The FOMC has been briefed systematically on alternative scenarios for the last quarter century, beginning with David Stockton as director of research and statistics. I have always found them useful, but they will not be a panacea. First, the selection of scenarios imparts information about what the staff and FOMC think are key issues. So does the ordering and omission of scenarios. These will involve some amount of subjectivity. Second, the alternative analyses need some assumption regarding appropriate monetary policy. Some versions of the Taylor rule and balanced-approach rule are often employed. Publishing all of those details will be important. The current Tealbook alternative simulations are not made public until confidential documents are released after five years with the transcripts. In releasing additional scenario results, it seems reasonable to expect an enhanced discomfort among participants who dislike these exercises. I think there is a clear role for these analyses, but understanding the best way to communicate this information will keep the next communications committee busy.

An explicit LR framework from the FOMC provides great value for enhancing the committee's deliberations and bolstering the public's understanding of the Fed's actions. Although the line between strategic elements and operational tactics can be subjective, it seems useful to flesh out the

more difficult strategic actions that may be subject to the most controversy but without undue clutter. Again, this may be in the eye of the beholder, and the committee will determine that. But no matter how many or how few of the details are decided, a simple strategic approach will remain crucial: Use your best judgment in all situations.

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