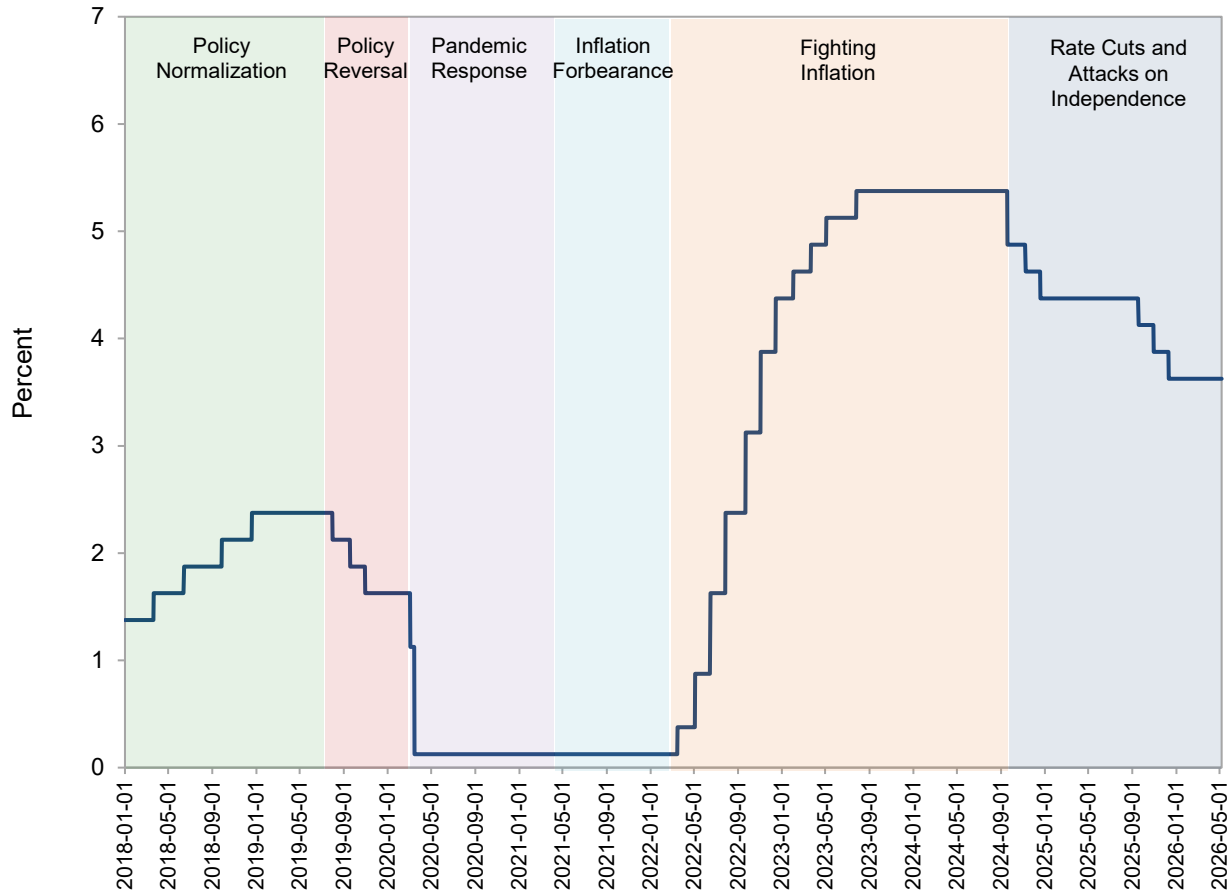


AN EARLY RETROSPECTIVE ON MONETARY POLICY IN THE POWELL ERA

Christina D. Romer
David H. Romer
Hutchins Center
June 2, 2026

I. CHRONOLOGY OF POLICY EPISODES

Figure 1. Midpoint of the Target Range for the Federal Funds Rate, 2018 to 2026



II. METHODOLOGY

Methodology

1. Identify motivation for policy decisions.

- Use narrative sources.
- Minutes of FOMC meetings, Chair's speeches, press conferences, and testimony.

2. Analyze “reasonableness” of policy decisions.

- Consider what policymakers thought at the time about future economic conditions, risks to the forecast, financial stability concerns, and other factors.
- Forecasts from Tealbooks, SEP, and SPF.

Qualitative Forward-Looking Taylor Rule

1. Summarizes successful policy in the past.

- Reflects most widely accepted models of what monetary policy can accomplish.

2. Such a rule suggests:

- If inflation is above target and/or unemployment is below the natural rate, want to move funds rate above neutral.
- If inflation is below target and/or unemployment is above the natural rate, want to move the funds rate below neutral.

Useful Scatterplot Diagram

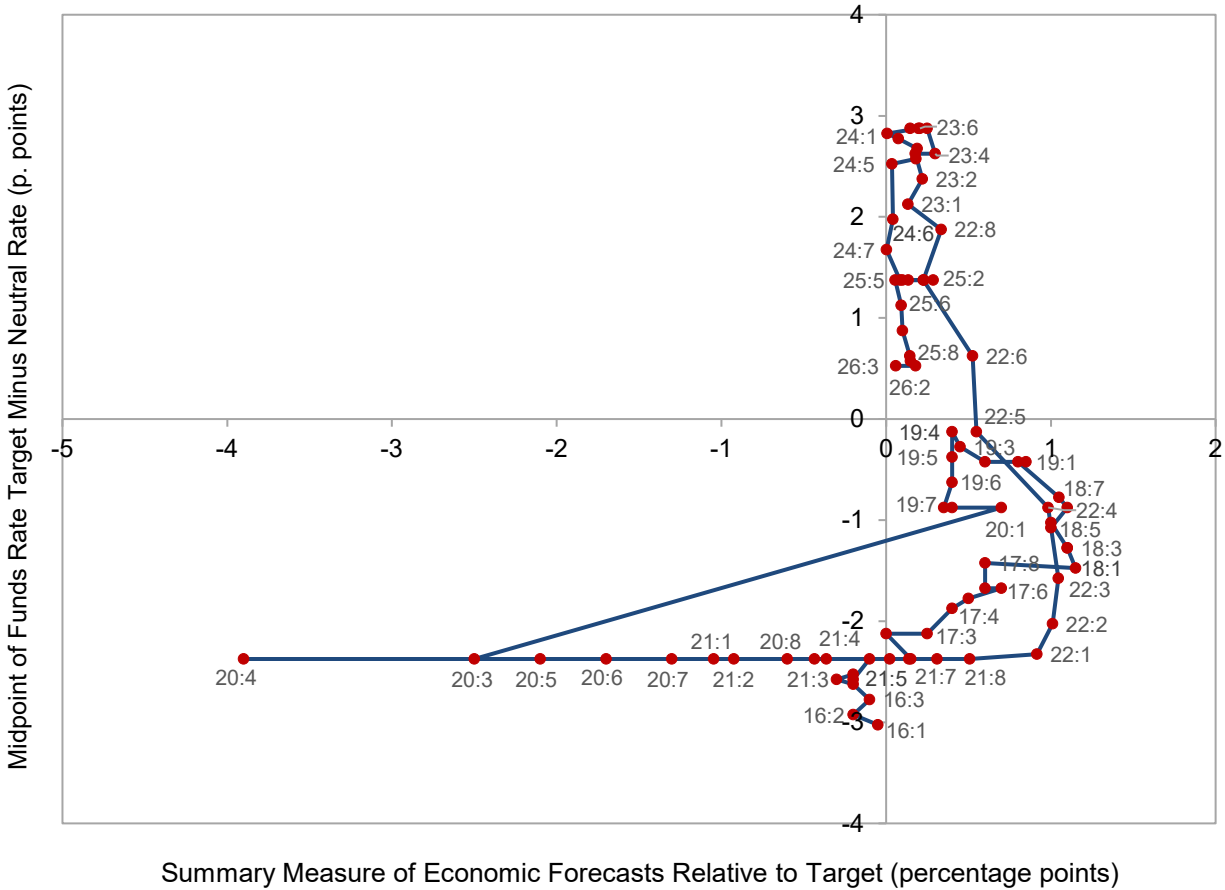
1. On the vertical axis:

- Funds rate target minus neutral rate
- Neutral rate estimated as long-run rate in SEP

2. On the horizontal axis:

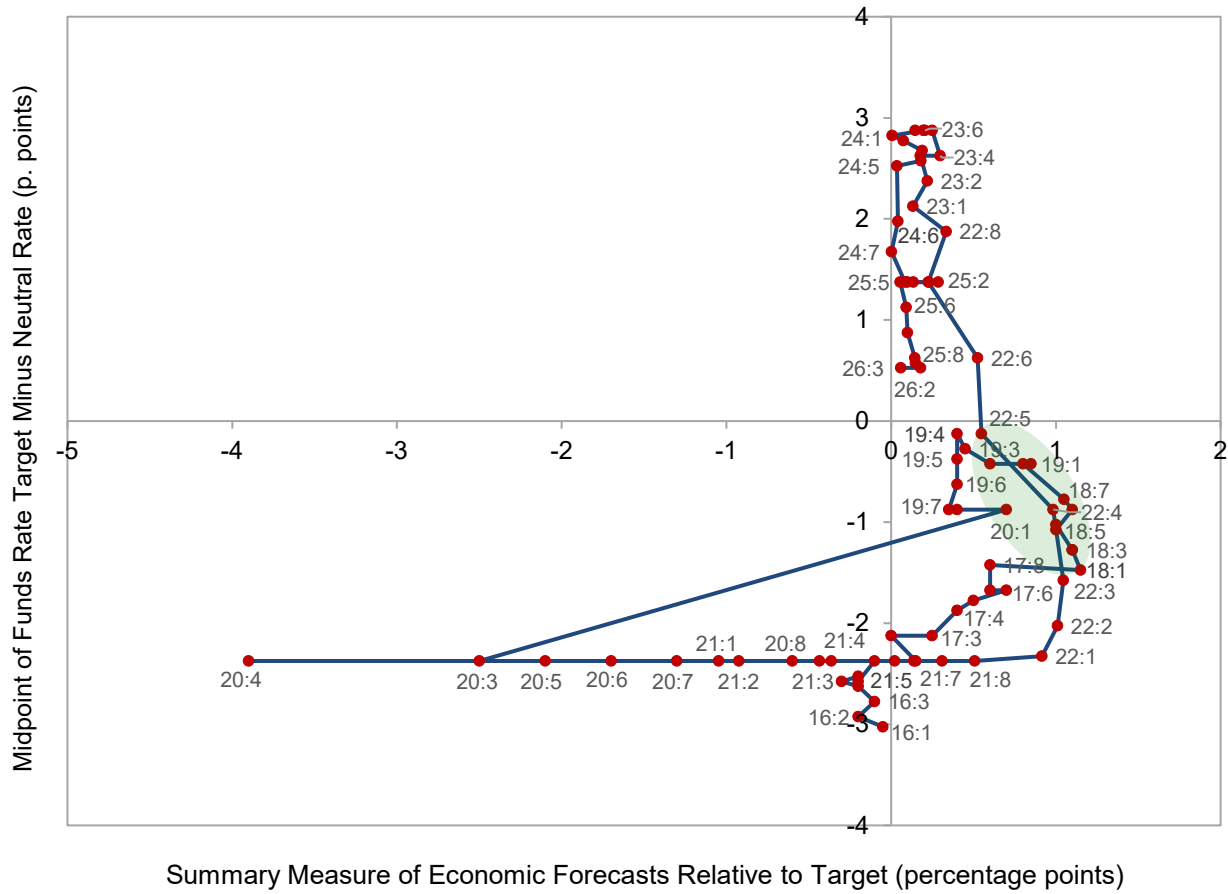
- Parsimonious measure of forecasts
- Inflation minus target + \bar{U} minus unemp. rate
- Positive value implies forecasted inflation is above target and/or forecasted unemployment is below the natural rate.

Figure 4. Scatterplot of Forecasts (Relative to Target) and Funds Rate (Relative to Neutral), 2016 to 2026

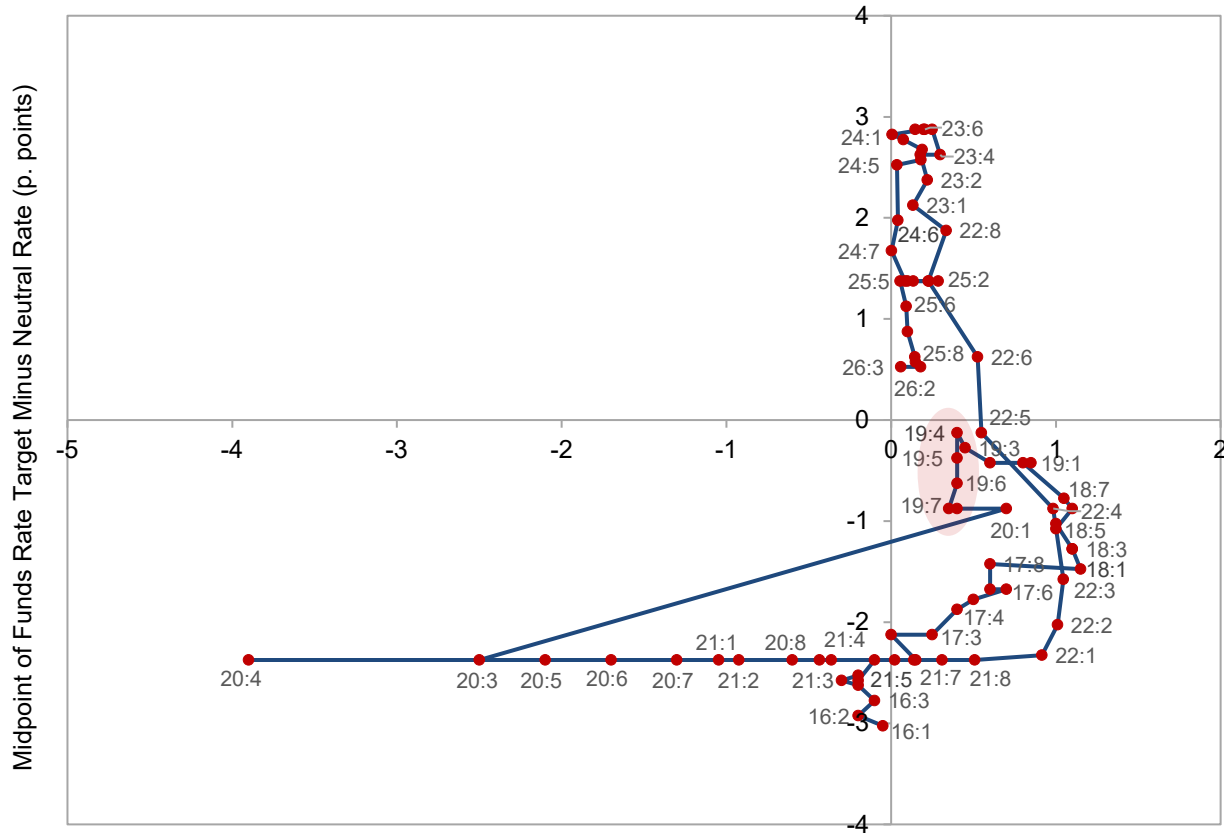


III, IV, V. ANALYSIS OF POLICY EPISODES

Policy Normalization 2018 to early 2019

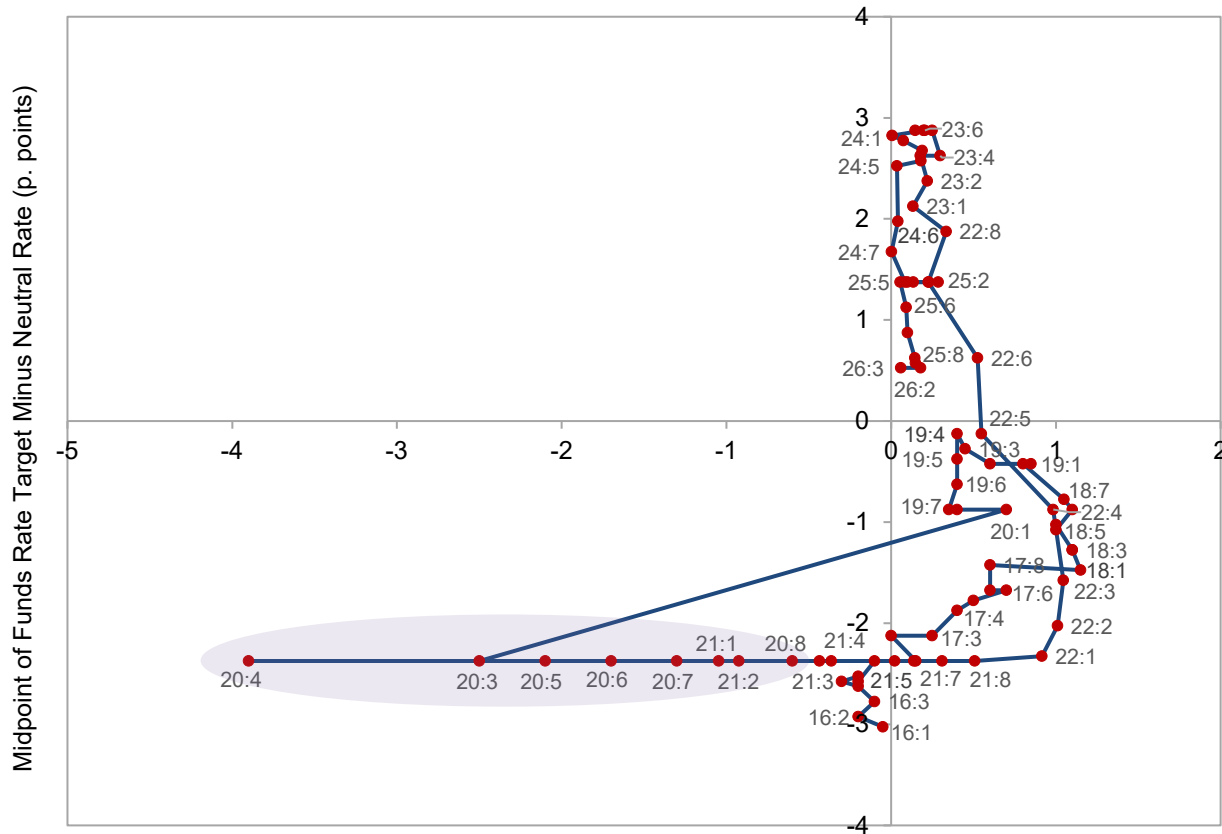


Policy Reversal Mid-2019 to early 2020



Summary Measure of Economic Forecasts Relative to Target (percentage points)

Pandemic Response 2020 to early 2021



Summary Measure of Economic Forecasts Relative to Target (percentage points)

Motivation

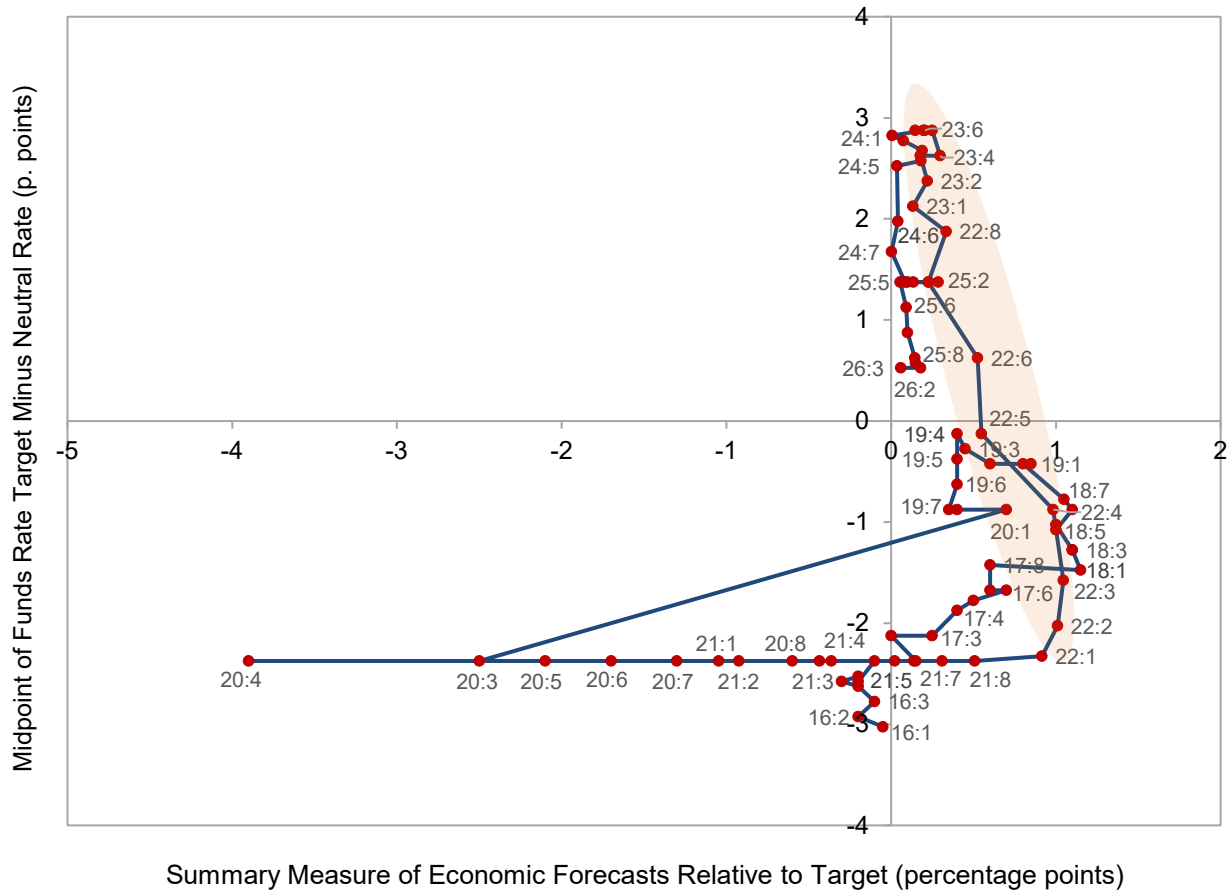
“Several participants also commented that price increases concentrated in a small number of categories were unlikely to change underlying inflation dynamics sufficiently to overcome the **possibility of a persistent downward bias in inflation.**”

(Minutes, 7/27–28/2021, p. 12).

“A strong labor market that is sustained for an extended period can deliver substantial economic and social benefits, including higher employment and income levels, improved and expanded job opportunities, narrower economic disparities, and healing of the entrenched damage inflicted by past recessions on individuals’ economic and personal well-being.”

(Powell, “Getting Back to a Strong Labor Market,” p. 1).

Fighting Inflation 2022 to Mid-2024



Interest Rate Cuts Mid-2024 to early 2026

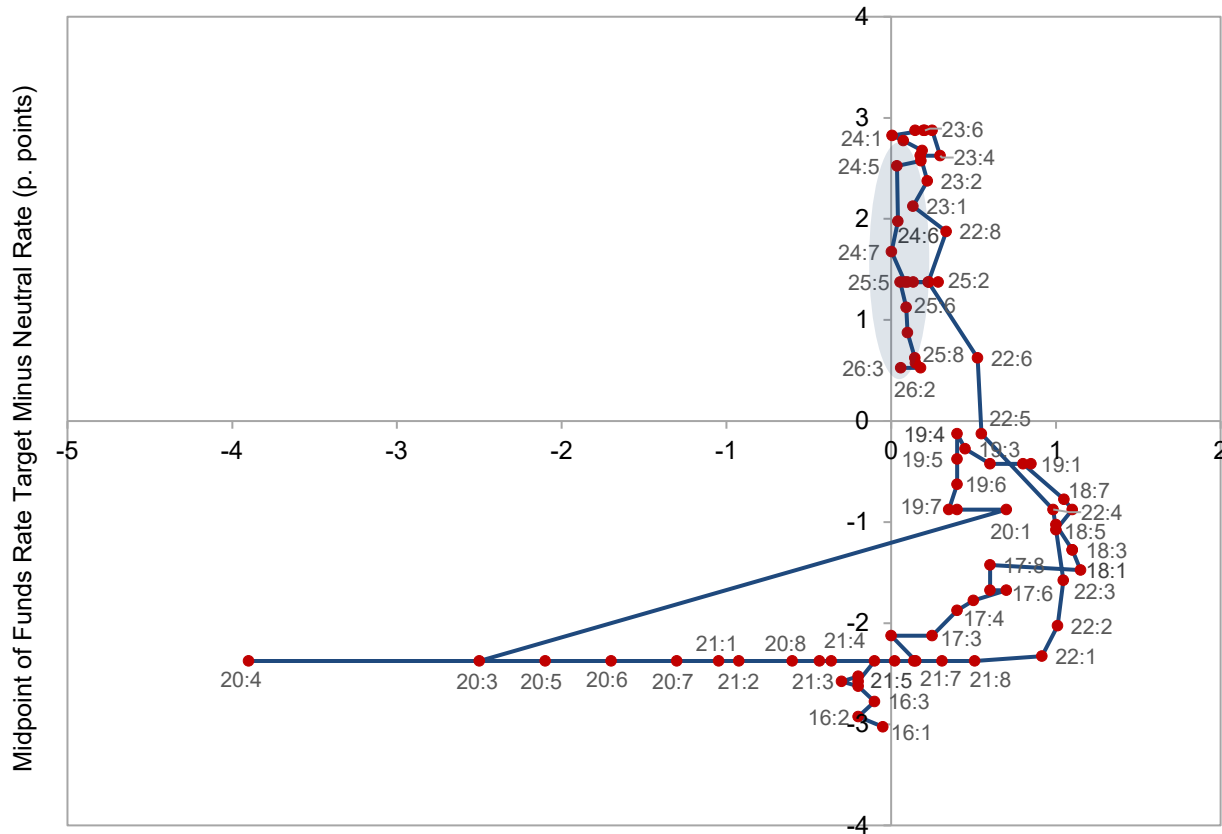
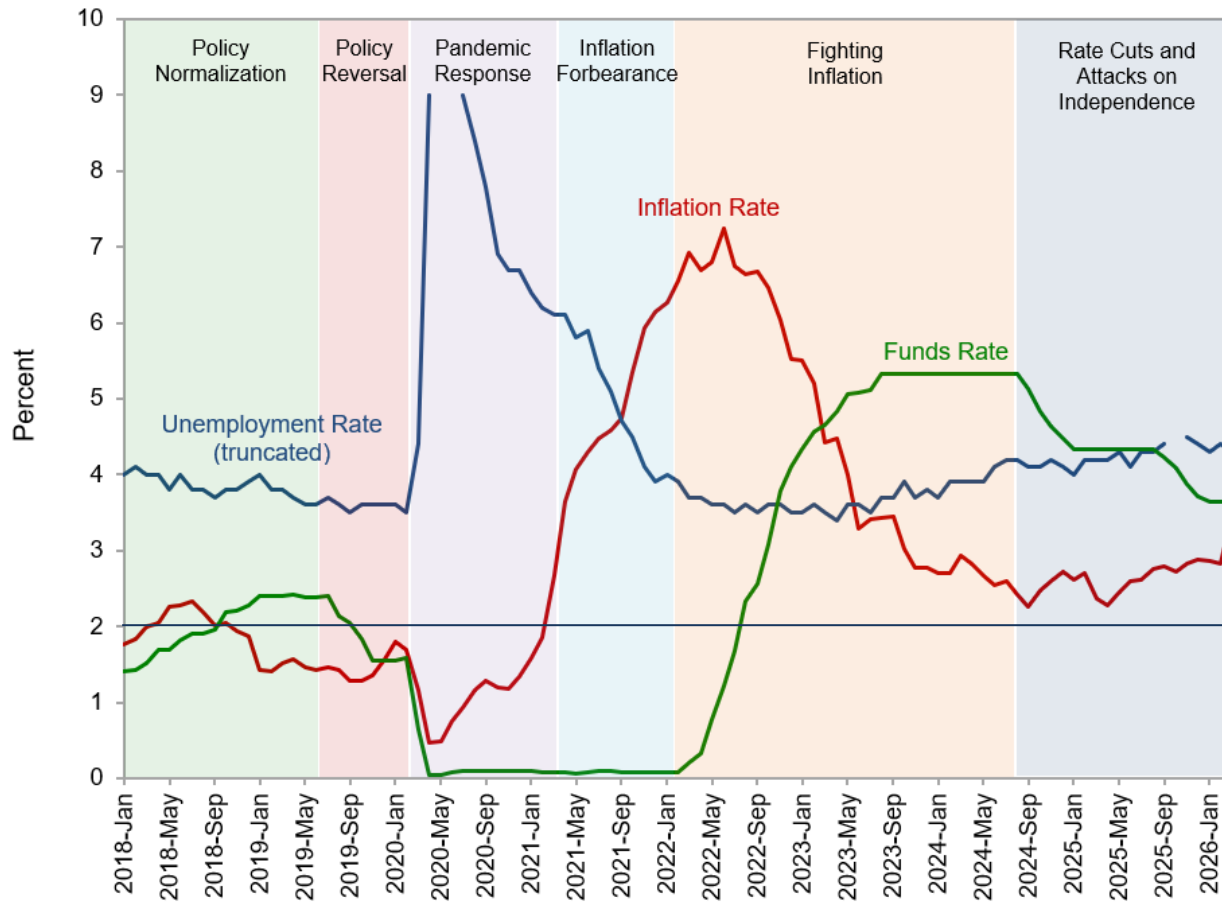


Figure 5. Figure 5. Actual Outcomes for Inflation, Unemployment, and the Funds Rate, 2018 to 2026



VI. TENTATIVE LESSONS

Lesson 1

Monetary policymakers need to have a realistic model of how the economy operates and what monetary policy can accomplish.

Lesson 2

The Federal Reserve should move quickly and aggressively when conditions warrant.

Lesson 3

Inflation is harmful even if inflation expectations do not become unanchored.

Lesson 4

Forward guidance should be carefully crafted and the bar for using it should be high.

Lesson 5

The Federal Reserve balance sheet should remain large.

Lesson 6

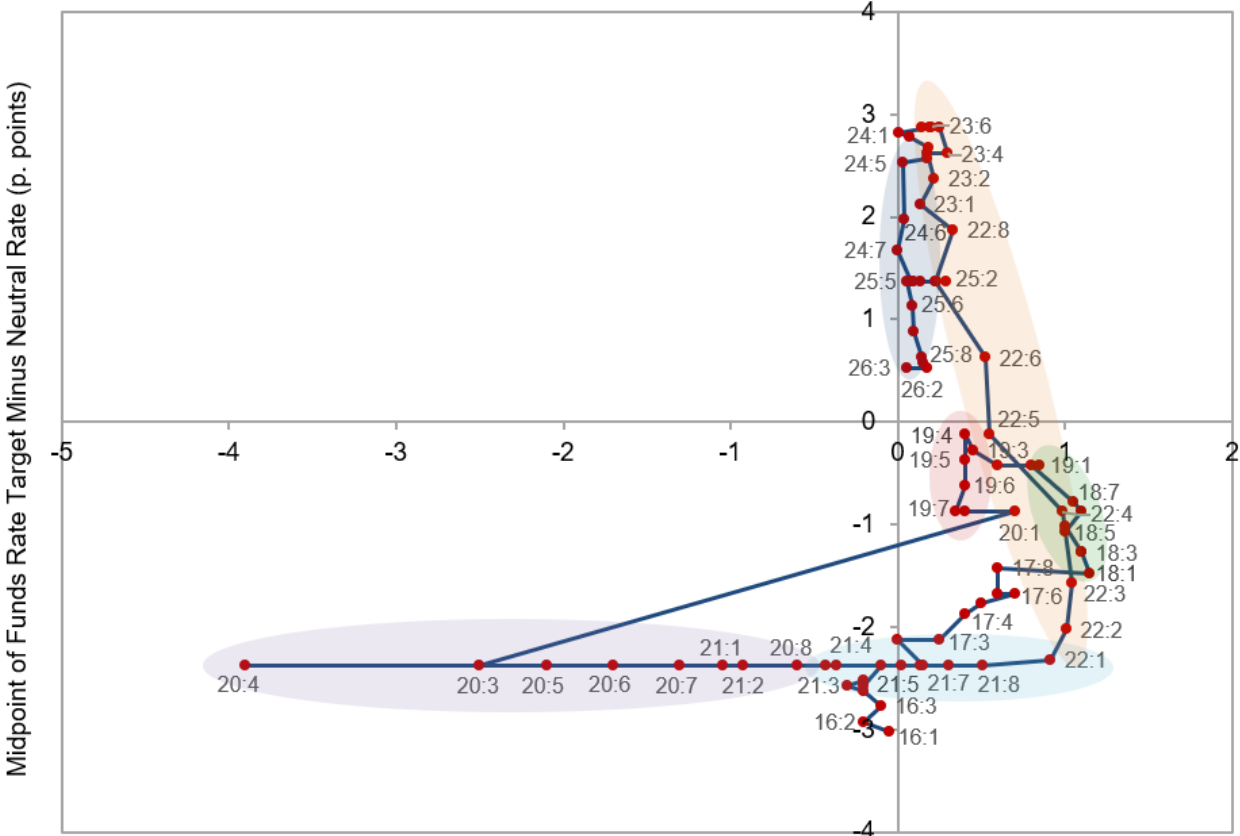
Federal Reserve independence is vital but tenuous.

EXTRA SLIDES

Table 1. Policy Episodes in the Powell Era

Episode	Dates (Month/Year)	Change in Funds Rate Target (percentage points)	Change in Securities Holdings (Billions of \$)
Policy Normalization	2/2018 – 6/2019	1.00	-594 ^a
Policy Reversal	7/2019 – 2/2020	-0.75	253
Pandemic Expansion	3/2020 – 2/2021	-1.50	3179
Inflation Forbearance	3/2021 – 2/2022	0.00	1452 ^b
Fighting Inflation	3/2022 – 8/2024	5.25	-1778 ^c
Interest Rate Cuts	9/2024 – present	-1.75	-283 ^d

Figure 4. Scatterplot of Forecasts (Relative to Target) and Funds Rate (Relative to Neutral), 2016 to 2026



Summary Measure of Economic Forecasts Relative to Target (percentage points)