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The Federal Reserve's Review of Its Monetary Policy Strategy, Tools, and Communication Practices

Remarks by

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at

"*Fed Listens*: Education, Employment, and Monetary Policy in the Third District"
hosted by the Federal Reserve Bank of Philadelphia

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I am pleased to participate in this event, part of the listening tour that Reserve Banks are hosting around the country and a key input into the Federal Reserve's review of our monetary policy strategy, tools, and communication practices.[1] We are bringing open minds to our review and are seeking a broad range of perspectives. To us, it simply seems like good institutional practice to engage with a wide range of interested individuals and groups as part of a comprehensive approach to enhanced transparency and accountability.[2]

President Harker already mentioned the Federal Reserve's statutory goals of maximum employment and price stability. Our review will take these dual mandate goals as given. We will also take as given that a 2 percent rate of inflation in the price index for personal consumption expenditures is the operational goal most consistent with our price-stability mandate. While we believe that our existing strategy, tools, and communications practices have generally served the public well, we are eager to evaluate ways they might be improved. That said, based on the experience of other central banks that have undertaken similar reviews, our review is more likely to produce evolution, not a revolution, in the way we conduct monetary policy.

With the U.S. economy operating at or close to our maximum-employment and price-stability goals, now is an especially opportune time for this review. The

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[1] Information about the review and the events associated with it are available on the Board's website at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm.

[2] Fuhrer and others (2018) explore the desirability of comprehensive reviews of the monetary policy framework. They argue that such reviews may help the Fed more effectively identify and implement needed changes. See Jeffrey Fuhrer, Giovanni Olivei, Eric Rosengren, and Geoffrey Tootell (2018), "Should the Fed Regularly Evaluate Its Monetary Policy Framework?" paper presented at the Brookings Papers on Economic Activity Conference, Fall, held at the Brookings Institution, Washington, September 13–14, https://www.brookings.edu/wp-content/uploads/2018/09/BPEA_Fall2018_Should-the-Fed-Regularly-Evlauate-its-Monetary-Policy-Framework.pdf.

unemployment rate is at a 50-year low, and inflation is running close to our 2 percent objective. We want to ensure that we continue to meet our statutory goals in coming years. Furthermore, the U.S. and foreign economies have evolved significantly since before the Global Financial Crisis. The review will afford us the opportunity to evaluate the new policy tools and enhanced communication practices the Federal Reserve deployed in response to the crisis and the recession that followed it.

Our monetary policy review will have several components. Listening sessions—such as today's—give us an opportunity to hear from the people and communities affected by monetary policy. Next month, we are holding a System research conference at the Federal Reserve Bank of Chicago, with academic experts and panelists from outside the Fed. Building on the perspectives we hear and on staff analysis, the Federal Open Market Committee will perform its own assessment of how it conducts monetary policy, beginning around the middle of the year. We expect to make our conclusions public in the first half of 2020.

The economy is constantly evolving, bringing with it new policy challenges. So it makes sense for us to remain open minded as we assess current practices and consider ideas that could potentially enhance our ability to deliver on the goals the Congress has assigned us. For this reason, my colleagues and I do not want to preempt or to predict our ultimate findings. What I can say is that any changes to our conduct of monetary policy that we might make will be aimed solely at improving our ability to achieve and sustain our dual-mandate objectives in the world we live in today.