

Thomas Laubach Research Conference

Discussion of “Improving Fed Communication:
A Proposal” by Ben Bernanke

Bill English
May 16, 2025

Outline

- Summary
- Reaction
 - Three concerns
 - Three questions
- Alternative B

Summary

- Current Fed communication of policy decisions includes relatively little explanation
 - The statement is brief
 - The SEP has no explanatory text
 - The press conference depends on the questions asked
- Ben proposes a new document, the *Economic Review*, which would be prepared by Board staff and would include:
 - Information on current economic and financial conditions
 - A forecast
 - Boxes on special topics
 - Alternative economic scenarios

Summary

- In addition, Ben proposes improvements to the SEP
- Taken together, these changes would strengthen the communication around policy decisions and bring the Fed into greater alignment with other major central banks
- It is always the case that significant changes to communication seem risky, but these changes seem very risky to me

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Three Concerns

- **First**, it seems like a bad idea to have two forecast documents (the SEP and the new *Review*) coming out at the same time
 - Focuses attention on the differences between the two, which is likely to be confusing
- And differences with the FOMC statement and any forward guidance provided there would add to the confusion
 - In such cases, it will be tempting for the Chair to say that the *Review* is “only the staff view.” But that would undermine the whole project.

Three Concerns

- **Second**, the alternative scenarios may not be very effective
- There are three possible benefits of providing alternative scenarios:
 - Clarify the uncertainties and risks
 - Help show the reasons for risk management policies
 - Provide information on the policy reaction function
- There is a fair amount of information on uncertainty and risks in the current SEP, and it is surprising how little attention it gets.

Three Concerns

- And staff-produced alternative scenarios seem unlikely to give much information on the Committee's reaction function
 - The scenarios would likely be based on some estimated reaction function – but that could be published
 - But that isn't the reaction function of the Committee
- Indeed, the Committee might not like publishing alternative scenarios because they could be misunderstood as showing the Committee's reaction function
 - But when it was tried in 2012, the Committee found it very hard to provide information on policy decisions in alternative scenarios

Three Concerns

- **Third**, providing specific, detailed assumptions for the staff forecast and the alternative scenarios can raise economic and political risks
- Providing a “financial crisis” scenario in a situation where a financial crisis seems a real possibility seems like it could trigger the outcome you would like to avoid
- And providing an alternative scenario in which forward guidance is abandoned quickly might be informative, but it could also undermine the effectiveness of the guidance

Three Concerns

- In some cases, the forecasts and scenarios will be seen by others as the Fed injecting itself into policy debates in areas outside its responsibility
 - And could invite requests for additional alternative scenarios that would put the Fed in the middle of such debates
 - Which could pose a risk to Fed independence
- To limit this risk, the alternative scenarios seem likely to be formulaic – but how useful would they be?

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Three Questions

- **First**, why the Board staff?
- Seems to raise a significant governance question
- Would the Reserve Bank presidents want to give this authority to the Board (and Chair)?
- How much oversight could the Committee provide and at what stage?
 - What about dissents? Could they be handled?

Three Questions

- **Second**, what is the right timing for the new material?
- Does the information need to be provided at the same time as the policy decision? Or could some of it be provided with the minutes?
- Does the material need to be up to date?
- If the *Review* needs to be in synch with the policy decision, would the process result in greater policy inertia?

Three Questions

- Finally, what is the role of the existing MPR?
- Currently, the MPR is the document that captures the Fed's views on economic and financial developments, provides a broad rationale for its policy decisions, and serves as an outlet for timely analysis (in the boxes)
- Now these things would be done in the *Review*
- The MPR might provide more detail, and boxes on less pressing issues, but it seems like it becomes obsolete
- Does that matter?

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Alternative B

- Focus first on improvements to the SEP
- Get more information from the participants about the assumptions underlying their forecasts and perhaps other issues
- Prepare a summary document that provides background and justification for the median SEP forecast
- The document would discuss the range of views and the reasons for that range – why some forecasts have higher paths for the funds rate, for example.
- Boxes on key analytical issues could be included as well

Alternative B

- As a second step, if desired, the staff could use alternative scenarios from the Tealbook to provide alternative scenarios around the median SEP forecast
 - Those would be explicitly staff work, based models and a staff policy rule (or rules?)
 - The selected alternative scenarios would aim to reflect the concerns of the participants
 - And they might well be formulaic

Alternative B

- Alternative scenarios might only be used in situations where they are seen as particularly helpful
 - Times of great uncertainty
 - Times when risk management is seen as particularly important
- The document should be approved by the participants
 - Which might not be easy
 - But it would be easier, since the baseline is the participant's forecasts and inputs

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