

THE FEDERAL RESERVE SYSTEM

Date: August 30, 2019
To: Federal Open Market Committee
From: Dave Altig, Jeff Fuhrer, Marc Giannoni, and Thomas Laubach
Subject: Background Papers for Review of Monetary Policy Framework

Attached are three memos that will serve as the basis for the staff presentations during the Committee’s special topic discussion at the upcoming meeting continuing the review of the monetary policy framework:

1. “Strengthening the Current Framework in View of the ELB and Some Considerations Related to Time-Inconsistent Strategies,” August 30, 2019
2. “Alternative Strategies: How do they work? How might they help?” August 30, 2019
3. “How Robust Are the Alternative Strategies to Key Alternative Assumptions?” August 30, 2019

The memos that the staff provided for the special topic discussion in July focused on taking stock of past economic performance in light of the current framework for monetary policy, and on lessons that past experiences have to offer for the effectiveness of the current framework. The three memos prepared for this meeting address several issues regarding possible changes to monetary policy strategy going forward. The first memo examines the likelihood of ELB episodes in the current economic environment and the potential limitations of operating with a strategy that eschews committing to policy actions that policymakers may find difficult to adhere to in the future. It also discusses steps that the FOMC could take if it chose to pursue instead a strategy that makes such “time-inconsistent” commitments. The second memo introduces several such strategies, specifically strategies that under some circumstances and to some degree aim to reverse past misses from the inflation objective. It uses a range of macroeconomic models to analyze economic performance under these strategies, maintaining

throughout the assumptions that the public generally understands these strategies and their implications for the future paths of key macroeconomic variables and believes that policymakers will follow through on their promises. The third memo examines the robustness of the results presented in the second memo by relaxing these and other assumptions.

Following the staff presentations and Q&A, there will be a full go-round. It would be helpful if, in your comments, you could address the questions on the following page.

**Questions for Discussion of Framework Review
at the September 2019 FOMC Meeting**

1. How do you weigh costs and benefits associated with committing to make up past deviations from the 2 percent inflation objective in the future compared to a framework that does not make such commitments?
2. What, if any, features of alternative make-up policies—variants of PLT, AIT, shadow rate or *ex ante* bias reduction policies—do you believe might best help the Committee to achieve its objectives, given the current economic environment? What do you see as the relative benefits and costs of symmetric and asymmetric (or temporary) make-up policies?
3. How do robustness considerations—especially the possibility of sluggishly-adjusting expectations, and the need for agents to learn about how any alternative strategy works—affect your assessment of the potential benefits of make-up policies? How could communications help address such robustness concerns?