

THE FEDERAL RESERVE SYSTEM

Date: November 22, 2019
To: Federal Open Market Committee
From: Dave Altig, Jeff Fuhrer, Marc Giannoni, and Thomas Laubach
Subject: Background Paper for Review of Monetary Policy Framework

Attached is the first of two memos, “Distributional Considerations for Monetary Policy Strategy,” 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. The second memo, which summarizes the insights gained from the *Fed Listens* events, will be circulated closer to the upcoming FOMC meeting.

Following the Committee’s discussion of alternative policy strategies and tools at the previous two meetings, the memo we are forwarding today focuses on the effects of alternative monetary policy strategies across different groups. An important theme in the analysis is that the costs of economic downturns are more pronounced for some groups than for others; the memo notes that the benefits of makeup strategies in models that incorporate this type of heterogeneity may be larger than those estimated in more traditional models.

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 December 2019 FOMC Meeting**

1. How have the Fed Listens events informed your understanding of the goals of monetary policy and your thinking about policy tradeoffs, especially the costs and benefits of tight labor markets?
2. How could the Committee better explain to the broader public its concerns about persistent below-target inflation and the rationale for raising inflation to the 2-percent goal?
3. How should monetary policy aimed at achieving the dual mandate take into account its effects on different segments of the population? In your view, do various forms of heterogeneity, such as liquidity constraints discussed in the staff memo, provide a rationale for stronger policy action in the vicinity of the ELB than would otherwise be the case?