THE FEDERAL RESERVE SYSTEM

Date: May 29, 2020

To: Federal Open Market Committee

From: Thomas Laubach, Lorie Logan, and Beth Anne Wilson

Subject: Memo on Lessons on Yield Caps or Targets from International and U.S. Experience

Attached is the second background memo for the Committee's discussion at the upcoming FOMC meeting. The memo reviews the policies of yield caps or targets (YCT) that the Federal Reserve followed during and after World War II and that the Bank of Japan and the Reserve Bank of Australia are currently employing. It highlights key lessons from these experiences related to the objectives and design of YCT policies, their effects on financial conditions and central bank balance sheets, and issues concerning debt management and central bank independence.

The memo was prepared by Sriya Anbil, Mark Carlson, Michele Cavallo (Division of Monetary Affairs), Kenneth Garbade, Frank Keane, Robert Lerman, Suraj Prasanna, Seth Searls, Katie Sullivan, Ingrid Tang (Federal Reserve Bank of New York), and Canlin Li and Paul Wood (Division of International Finance). If you have any questions concerning the content of this memo, please do not hesitate to contact the authors of the memo directly or any of the three of us.

At the June FOMC meeting, following brief 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. Please note that staff is planning on providing additional analysis on YCT in advance of the July FOMC meeting.

Questions for Discussion at the June 2020 FOMC Meeting

1. What roles do you see for forward guidance and large-scale asset purchase programs, such as the types considered in the staff memo, to support the attainment of the Committee's maximum employment and price stability goals?

2. In light of the foreign and historical experience with targeting interest rates along the yield curve, what role do you see for such a policy tool in the United States? What additional analysis would be helpful in assessing the possible contribution of such an approach?

3. In light of these considerations, what are your views on the relationships between forward guidance, asset purchases, and targeting rates along the yield curve?