

STRATEGIES *for* MONETARY POLICY



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SYMPOSIUM

“Monetary Strategies in Practice”

Introduction

Charles I. Plosser

I want to start by applauding the Fed’s efforts to review its strategies, tools, communications for conducting policy, and how they meet their congressional mandates. I think it’s a tremendous effort and that it has an opportunity to bring a lot of insights to the Fed itself as well as the outside world about how the Fed thinks about things. But to seize that opportunity, I really want to stress that I believe the best kind of outcome—and they allude to this in their statement—is communicating at the end of the day how their strategy (whichever strategy they choose), their tools, and their communications all fit together. The coherence of strategy, tools, and communications, the coherence of that message can be vitally important to the Fed in the longer run, regardless of which strategy they choose for the moment. But integrating those things is going to be really important and very useful. And I think, among other things, it will help encourage the Fed and encourage policy to be more coherent, more systematic, and a better communicator in the process.

But I think at the same time, it will matter what strategy they choose. And I’d like to emphasize a couple things with regard to that. The challenge of adopting a new strategy, whatever that may

be, will carry with it its own set of challenges. And what I'm afraid of, or what I think could happen if we're not careful, is the Fed could have a new strategy, but if, in the process, they fail to articulate the way the tools and the communications and the strategy all fit together, and how they're going to execute that, then what will happen is the new strategy will look a lot like the old strategy. Too much discretion, too much ability to create leeway between their tools, actions, communications, and strategies will just look like the old discretionary regime. So, tying those pieces together, I think, is going to be an important part of the success of this effort, and the payoff of this effort if, in fact, they can pull it off.

The other point I would make about strategies is that when considering strategies, I think the Fed needs to be very careful about overpromising. They need to understand and accept some humility about what they in fact can deliver on and the precision with which they can deliver it, so that the public will understand what the Fed actually can and cannot do. I think a big danger or risk, if you will, would be the Fed promising some degree of precision in their strategy and then getting frustrated over and over again by not being able to deliver with the precision that markets think they should have. So, I think part of the communications is about setting expectations right with the market in terms of what the Fed is able to do, making sure that there's not too much hubris and that there's some humility in that new strategy, and to communicate that in an effective way. Because otherwise, they'll find themselves lacking credibility, and if they don't have credibility, then whatever new strategy they pick is probably going to fail. Still, I'm very optimistic, and I'm very pleased that this effort's going on.