How Much Can Monetary Policy Do?

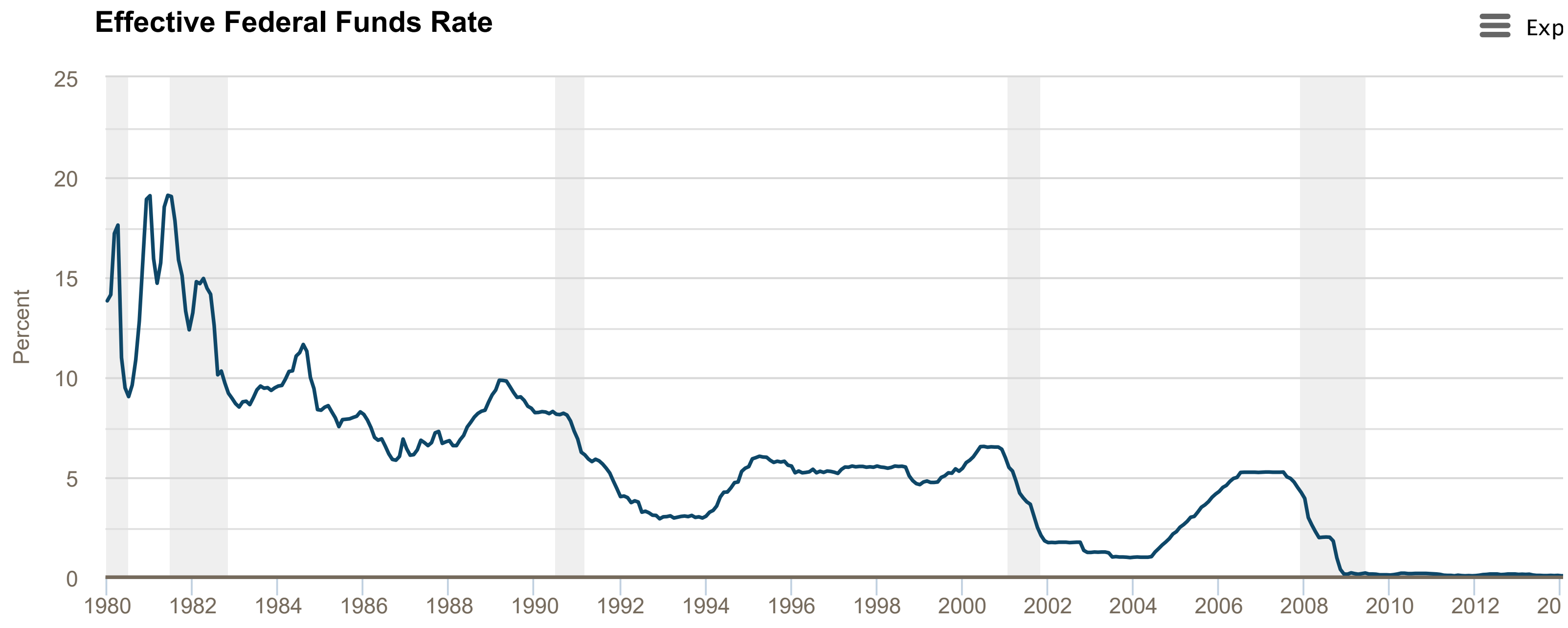
August 20, 2015

Through 2014, a range of indicators suggested that the underutilization of labor market resources gradually diminished. But how much labor market slack remains? How much of that slack has been removed—and can be removed in the future—by monetary policy?

The answers to these questions are critical to the Federal Open Market Committee's decision about the timing of "liftoff," or when to raise the federal funds rate. When the FOMC decides to begin removing policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. And that decision will depend on data that the Federal Reserve continues to gather and assess.

The rest of this annual report will explore questions concerning labor market slack and additional facets of the nation's complex, fluid labor market. We hope the report will help to illuminate how much labor market slack results from transitory factors—which monetary policy can address—and how much might be the result of more lasting changes—which are generally not directly influenced by Fed policy.

Effective Federal Funds Rate



Note: Shaded areas indicate recession.
Source: Board of Governors of the Federal Reserve System

Note: This article is excerpted from the [Atlanta Fed's 2014 annual report](#).