

Rationale for My Dissent at the December 2017 FOMC Meeting

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At the December 13 Federal Open Market Committee (FOMC) meeting, I dissented from the decision to increase the federal funds rate. I thought the decision was a close one, and I carefully considered all of the arguments for and against raising rates. In the end, I did not share the majority's view that the balance of evidence favored a rate increase.

Real activity in the U.S. is on a solid footing, which by itself would support a further adjustment in policy. Inflation, however, is too low and has been so for quite some time. I am concerned that persistent factors are holding down inflation, rather than idiosyncratic transitory ones. Namely, the public's inflation expectations appear to me to have drifted down below the FOMC's 2 percent symmetric inflation target. And I am concerned that too many observers have the impression that our 2 percent objective is a ceiling that we do not wish inflation to breach, as opposed to the symmetric objective that it really is; that is, we would like to see the odds of inflation running modestly below 2 percent equal the odds of it running modestly above over the long run.

I believe that leaving the target range at 1 to 1-1/4 percent at the current time would have better supported a general pickup in inflation expectations and increased the likelihood that inflation will rise to 2 percent along a path that is consistent with a symmetric inflation objective.

Such a pause in the policy normalization process also would have better allowed the Committee time to assess the progress of incoming inflation data. Many analysts think the drop in core inflation this past spring was probably transitory. Waiting a while longer before raising rates would have given us a chance to see whether or not that was true. Hopefully, it will turn out to be the case that the inflation decline was largely transitory and that a gradual pace of rate increases can eventually take place in a context that delivers greater confidence that inflation will reach 2 percent over the medium term.

Note: Opinions expressed in this article are those of Charles L. Evans and do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.