More on Modern Monetary Policy Rules

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Speaking to the Indiana Bankers Association, St. Louis Fed President James Bullard further elaborated on some key directions the Fed could take to update a popular monetary policy rule, a version of the Taylor rule, whose construction was based on U.S. data from the 1980s and 1990s. Since then, he noted, three important macroeconomic developments have altered key elements of policy rule construction. These developments are lower short-term real interest rates in the U.S. and around the world, the disappearing Phillips curve and better measures of inflation expectations. “Incorporating these developments yields a modernized policy rule that suggests the current level of the policy rate is about right over the forecast horizon,” Bullard said.

Bullard expanded on remarks that were delivered to the Economic Club of Memphis on Oct. 18, 2018.