Bullard Discusses Fed’s Monetary Policy Framework during Virtual Panel

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St. Louis Fed President James Bullard shared his views on several elements of the Fed’s monetary policy framework review, including the move to flexible average inflation targeting. He spoke during a Reinventing Bretton Woods Committee panel discussion.

Bullard noted that having the policy rate near the effective lower bound in recent years has dragged down actual inflation outcomes, making it difficult to maintain credibility for the inflation target. He said that flexible average inflation targeting takes into account more explicitly the effective lower bound and its impact on actual inflation outcomes. This new strategy would allow policymakers to make up for past misses on inflation, he said.

Bullard discussed other elements of the review, including the Federal Open Market Committee’s emphasizing that the Fed’s employment goal is broad and inclusive of everybody in the economy; revised language that says the FOMC would worry only about shortfalls, instead of “deviations,” of employment from full employment; and better description of the role of financial stability in FOMC deliberations.

During the panel discussion, he addressed questions related to overshooting the inflation target, additional actions the Fed could take should more be needed, and the U.S. Treasury yield curve.

The video for the event can be found here.