Is the Fed 'Behind the Curve'? Two Interpretations

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Presentation (PDF)

During a presentation at Princeton University, St. Louis Fed President Jim Bullard presented two interpretations of whether the Federal Reserve is “behind the curve” on raising its policy rate relative to high inflation.

Bullard said that U.S. inflation is exceptionally high and comparable to inflation in 1974 and 1983. Standard Taylor-type monetary policy rules, even if based on a minimum interpretation of the persistent component of inflation, still recommend substantial increases in the policy rate, he said. This provides one definition of “behind the curve,” and the Fed is far behind based on this definition, he noted.

“However, all is not lost. Modern central banks are more credible than their 1970s counterparts and use forward guidance,” he said. “Credible forward guidance means market interest rates have increased substantially in advance of tangible Fed action. This provides another definition of ‘behind the curve,’ and the Fed is not as far behind based on this definition.”

Having trouble with the video? Watch it here.