June 8, 2017

Federal Reserve Board of Governors
Constitution Ave NW & 20th Street Northwest
Washington, D.C. 20551

Dear Chair Yellen and the Board of Governors,

The end of this year will mark ten years since the beginning of the Great Recession. This recession and the slow recovery that followed was extraordinarily damaging to the livelihoods and financial security of tens of millions of American households. Accordingly, it should provoke a serious reappraisal of the key parameters governing macroeconomic policy.

One of these key parameters is the rate of inflation targeted by the Federal Reserve. In years past, a 2 percent inflation target seemed to give ample leverage with which the Fed could lower real interest rates. But given the evidence that the equilibrium interest rate had fallen substantially even prior to the financial crisis, and that the Fed's short-term policy rate remained at zero for seven years without sparking any large acceleration of aggregate demand growth, a reassessment of this target seems warranted. Such a reassessment is particularly appropriate when the lack of evidence that moderately higher inflation would harm Americans' standard of living is juxtaposed with the tremendous evidence that a tighter labor market would improve Americans' standards of living.

Some Federal Reserve policymakers have acknowledged these shifting realities and indicated their willingness to reconsider the appropriate target level. For example, San Francisco Federal Reserve President John Williams noted the need for central banks to "adapt policy to changing economic circumstances," in suggesting a higher inflation target, and Boston Federal Reserve President Eric Rosengren cited the different context in which the inflation target was set in emphasizing the need for debate about the right target.[1] [2] In May, Vice Chair Stanley Fischer highlighted the Canadian system of reconsidering the inflation target every five years, saying, "I can envisage – say, in the case of inflation targeting – a procedure in which you change the target or you change the other variables that are involved on some regular basis and through some regular participation."[3]

The comments made by Fischer, Rosengren, and Williams all underscore the ample evidence that the long-term neutral rate of interest may have fallen. Even if a 2 percent inflation target set an appropriate balance a decade ago, it is increasingly clear that the underlying changes in the economy would mean that, whatever the correct rate was then, it would be higher today. To ensure the future effectiveness of monetary policy in stabilizing the economy after negative shocks – specifically, to avoid the zero lower bound on the funds rate – this fall in the neutral rate may well need to be met with an increase in the long-run inflation target set by the Fed.

More immediately, new, post-crisis economic conditions suggest that a reiteration of the meaning of the Fed's current target is in order. In its 2016 statement of long-run goals and strategy, the Federal Open Market Committee wrote: "The Committee would be concerned if inflation were running persistently above or below this objective." Some FOMC participants, however, appear to instead consider 2 percent a hard ceiling that should never be breached, and justify their decision-making on that basis. It is important that the Federal Reserve makes clear – and operates policy based on – its stated goal that it aims to avoid inflation being either below or above its target.

Economies change over time. Recent decades have seen growing evidence that developed economies have harder times generating faster growth in aggregate demand than in decades past. Policymakers must be willing to rigorously assess the costs and benefits of previously-accepted policy parameters in response to economic changes. One of these key parameters that should be rigorously reassessed is the very low inflation targets that have guided monetary policy in recent decades. We believe that the Fed should appoint a diverse and representative blue ribbon

[1] John Williams, "Monetary Policy in a Low R-Star World," August 15, 2016
[2] Sam Fleming, "Inflation Goal May Be Too Low, says Fed's Rosengren," *Financial Times*, April 21, 2015
[3] Greg Robb, "Fed's Williams Backs Changing Central Bank's Strategy to Price-Level Targeting," *Market Watch*, May 5, 2017

commission with expertise, integrity, and transparency to evaluate and expeditiously recommend a path forward on these questions. We believe such a process will strengthen the Fed as an institution and its conduct of monetary policy, and help ensure wise policymaking for the years and decades to come.

Signed,

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