
Lessons Learned and Challenges Ahead

*Bank of Japan – Institute for Monetary and Economic Studies
Tokyo
May 25, 2017*

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The views I express here are my own and do not necessarily reflect the views of the Federal Reserve Bank of Chicago, my colleagues on the Federal Open Market Committee (FOMC) or within the Federal Reserve System.

Outcome-Based Monetary Policy

- **Lesson 1: Outcome-based policies are especially critical during crises and indispensable at the ZLB**
- **Lesson 2: Symmetric inflation target is a challenging objective for conservative central bankers**
- **Lesson 3: Risk-management against ZLB likely a key best-practice consideration for some time**

Lesson 1: Outcome-based policies especially critical during crises, indispensable at the ZLB

- ***Do whatever it takes* mentality**

- **2012: Explicit linkage to economic outcomes**
 - **Open ended QE3: Continue purchases until substantial improvement in labor market**

 - **Threshold forward guidance: Funds rate at ZLB as long as unemployment rate above 6-1/2 percent and inflation no higher than 2-1/2 percent**

Lesson 2: Symmetric inflation target challenging for conservative central bankers

- **Rogoff (1985) solution to Barro-Gordon (1983): Appoint conservative central banker who will not attempt $u < u^*$**
- **Lesson learned in the 1970s: Don't try to permanently deliver $u < u^*$**
- **Conservative central banker may deliver $\pi < \pi^*$ on average => public may think π^* a ceiling**

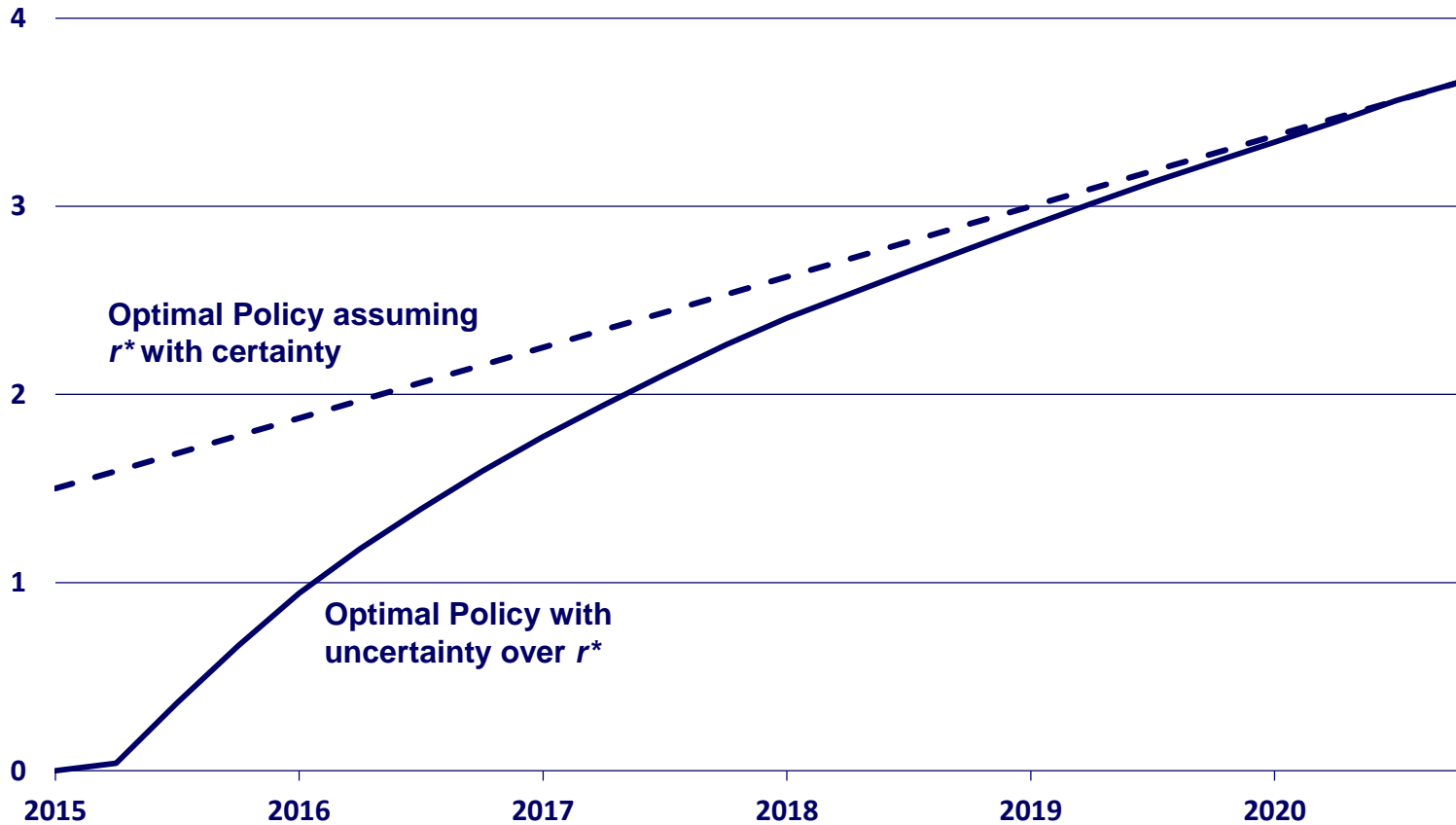
Lesson 3: Risk-management against ZLB likely to be key consideration for some time

- **Unconventional policy tools effective, but second best**
- **The more likely shocks that might take you to ZLB in future, the more accommodative optimal policy today -- Evans, Fisher, Gourio, Krane (2015)**

Optimal Policy in Forward-Looking Model

Federal Funds Rate

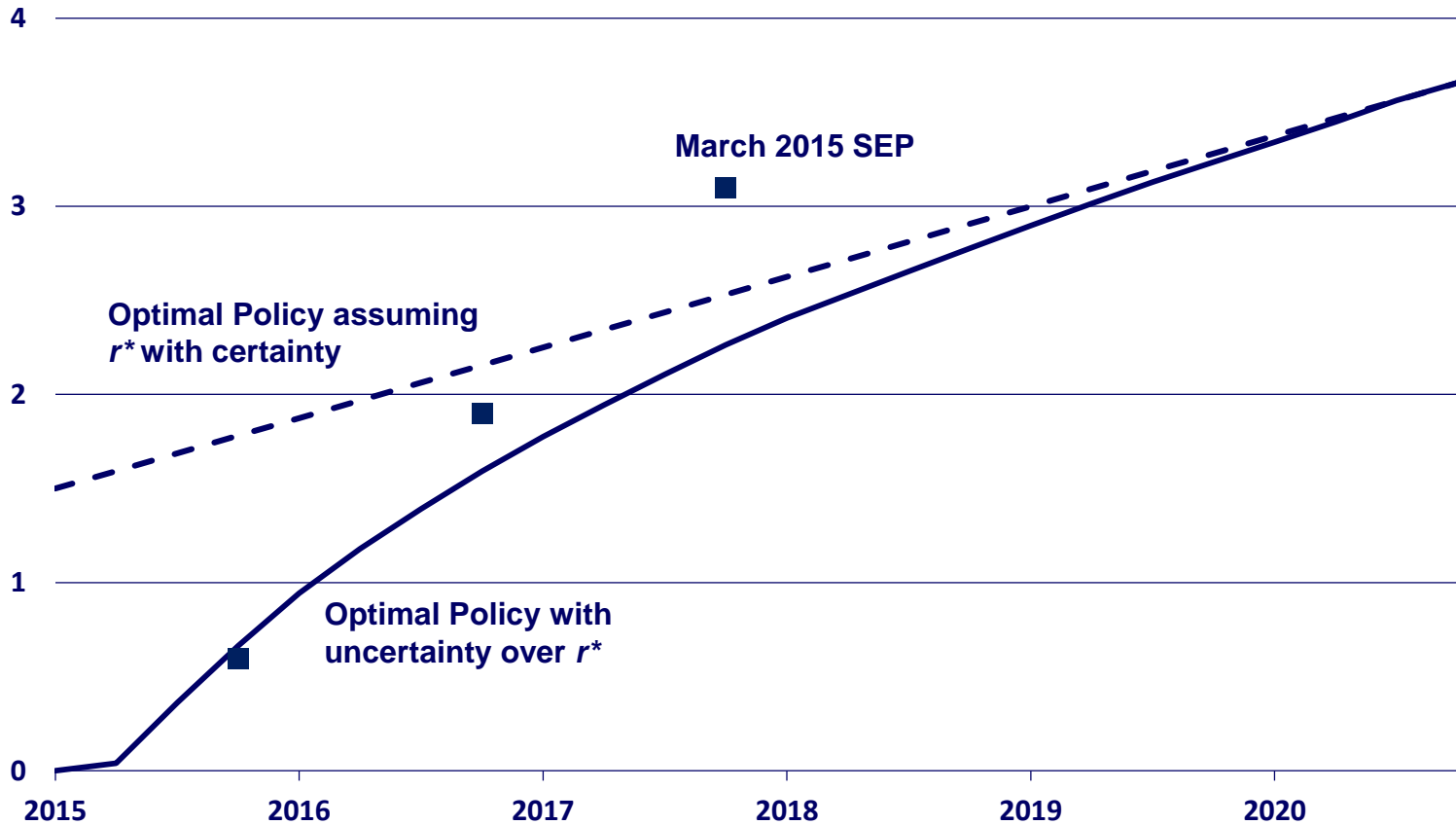
(percent)



Optimal Policy in Forward-Looking Model

Federal Funds Rate

(percent)

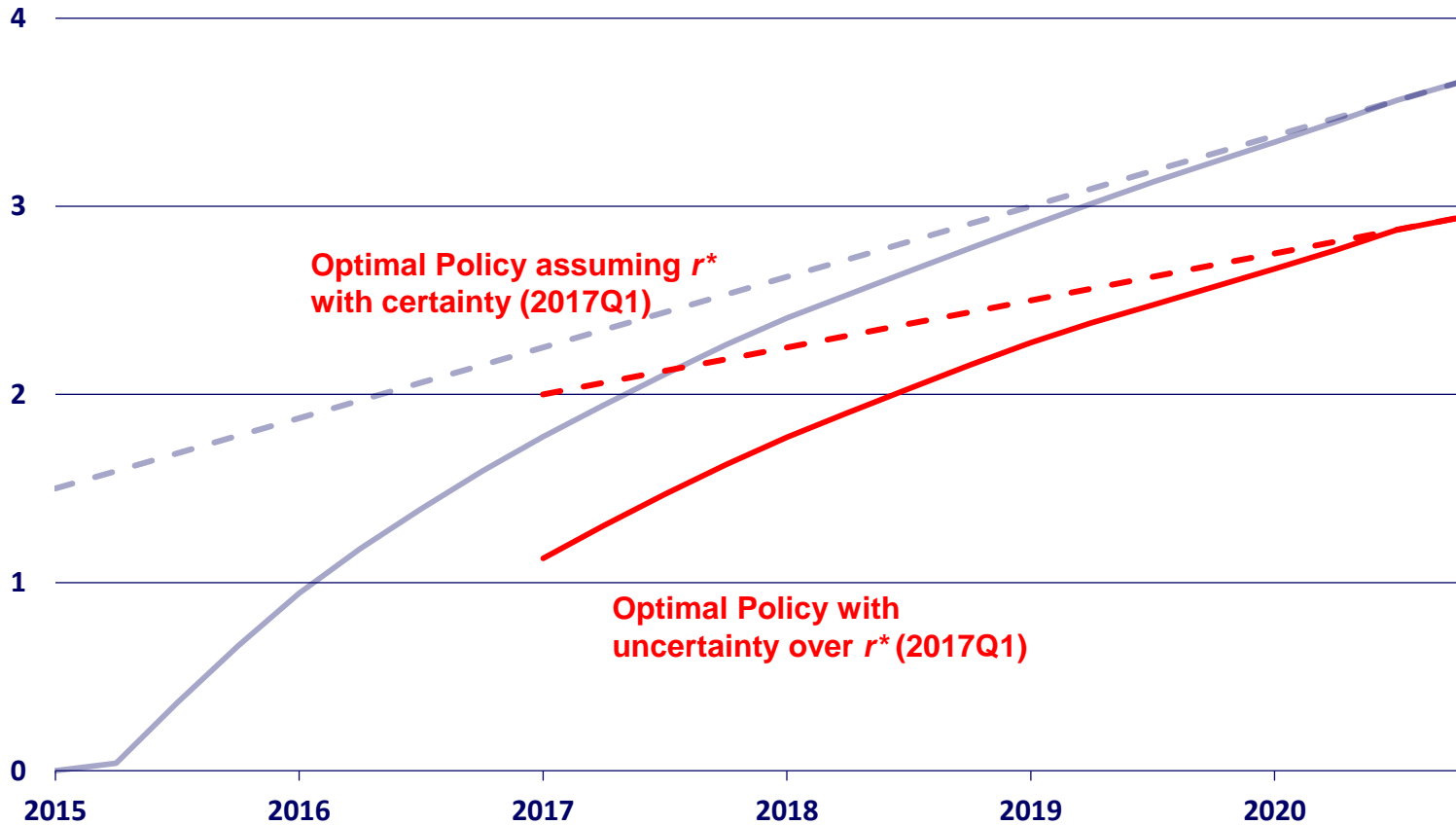


SEP's are the median values of FOMC participants' judgment of the appropriate level of the target federal funds rate at the end of the year. Source: Federal Open Market Committee

Optimal Policy in Forward-Looking Model

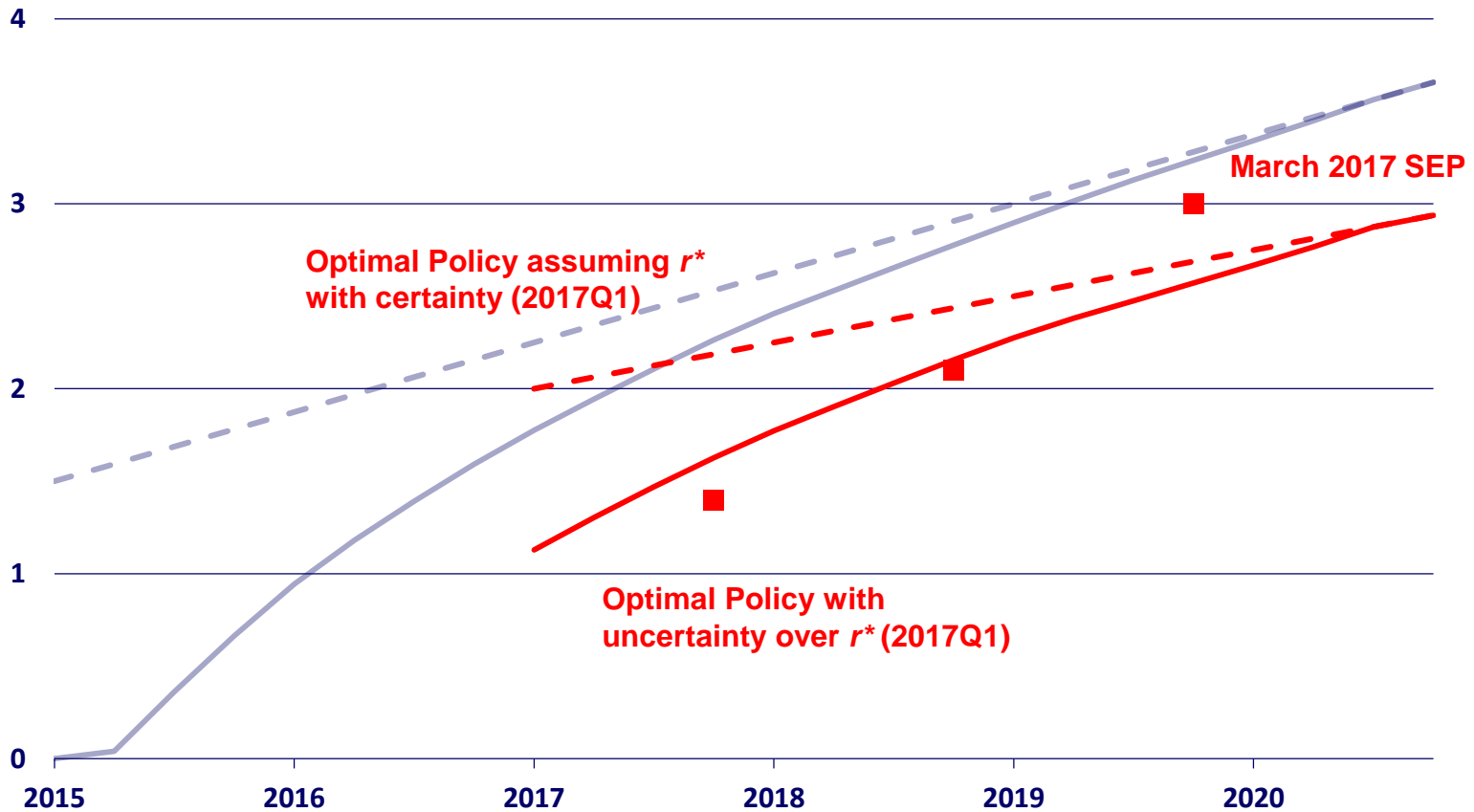
Federal Funds Rate

(percent)



Optimal Policy in Forward-Looking Model

Federal Funds Rate (percent)



SEP's are the median values of FOMC participants' judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year. Source: Federal Open Market Committee