

Monetary Policy Advisory Panel

Meeting of March 30, 2018

Minutes¹

Present: William Dudley, Michael Strine. **Panelists:** Markus Brunnermeier, Kristin Forbes, Mark Gertler, Frederic Mishkin, Nobuhiro Kiyotaki, Thomas Philippon, Christopher Sims, Michael Woodford. **FRBNY Staff:** Fernando Duarte, Julia Gouny, Justine Hansen, Beverly Hirtle, Anna Kovner, David Lucca, Jonathan McCarthy, Paolo Pesenti, Simon Potter, Julie Remache, Robert Rich, Aysegul Sahin, Argia Sbordone, Andrea Tambalotti.

The discussion primarily centered on the two issues on the agenda: the challenges posed to monetary policy by a large fiscal stimulus when the economy is near full employment and the long-run framework for monetary policy once policy is “normalized.”

Monetary and fiscal policy interaction

One of the panelists introduced the discussion on the interaction between monetary and fiscal policy, concentrating the remarks on the constraints to monetary policy that could result from a large fiscal stimulus and the associated potential increases in fiscal deficits and government debt.

The panelist drew a parallel with the situation in the 1970s, where a sizable widening of the fiscal deficit and uncertainty about the future path of fiscal policy probably contributed to the rise of inflation at that time. It was noted that this combination also probably reduced the potency on inflation of contractionary monetary policy. Eventually, monetary policy would need to be very contractionary to combat high inflation, which likely contributed to the depth of the 1981 – 83 recession.

Panelists discussed to what extent the current situation is different from the 1970s episode. It was pointed out that U.S. monetary policy has been more successful in anchoring longer-term inflation expectations, which should mitigate the emergence of inflation scares. In addition, a panelist noted that the ratio of the primary budget deficit to the value of government debt is below the peaks seen in the mid-1970s. Panelists expressed agreement with the practice of Federal Reserve officials not to comment on specific fiscal policy actions and decisions.

¹ Prior to the meeting, panelists were reminded by FRBNY staff that they are required to review the Monetary Policy Advisory Panel Charter and the Antitrust Guidelines for Members of FRBNY’s Advisory and Sponsored Groups that were distributed to them prior to the meeting.

Nevertheless, some panelists stated that the Federal Reserve may need to engage in more communication with the public about the constraints that high levels of government debt could impose on the ability of monetary policy to achieve its objectives.

Panelists also discussed the extent to which there is currently a safety premium associated with U.S. Treasury debt and how a higher level of government debt could affect that premium.

Monetary Policy framework after normalization

Another panelist introduced the second issue on the long-run policy framework, discussing his views on the desirable features of a monetary policy framework. The main message was that the implicit inflation targeting regime that generally worked well prior to the financial crisis also performed remarkably well during the crisis, where in the face of severe adverse shocks, longer-run inflation expectations remained fairly well anchored and inflation did not move too low for too long.

The ensuing discussion touched upon panelists' views on the extent to which the public understands that the FOMC's longer-run inflation objective is symmetric, and whether the Fed needs to engage in stronger communication in that respect.

Panelists provided their views on possible alternative strategies, such as nominal GDP or price level targeting, and generally concluded that such frameworks likely would not be superior to a flexible inflation targeting framework. Panelists also discussed possible advantages of formulating the FOMC's longer-term inflation objective in terms of a band around 2 percent.

Another issue discussed was whether financial conditions should be an explicit part of the monetary policy mandate. The general view of the panelists was that it is better to use separate tools to target financial stability and address financial vulnerabilities; however, some panelists argued that the lack of good macroprudential tools in the United States leaves open the case for using monetary policy to address financial stability developments in some circumstances.