

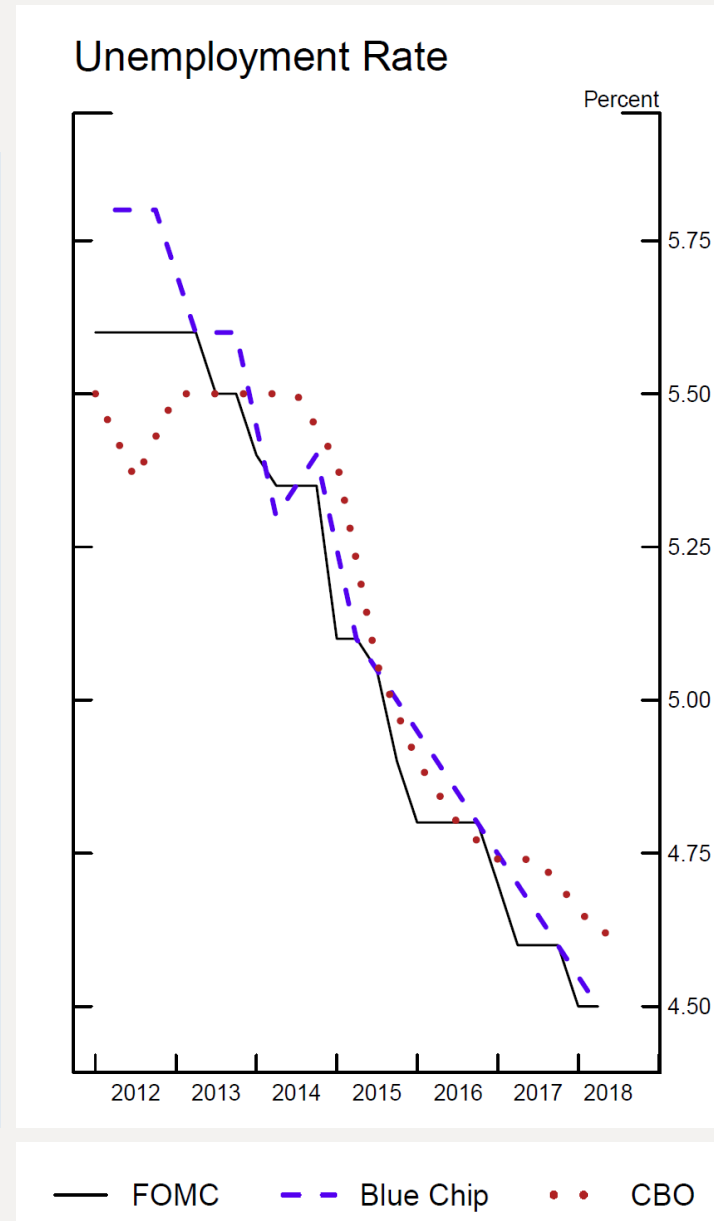
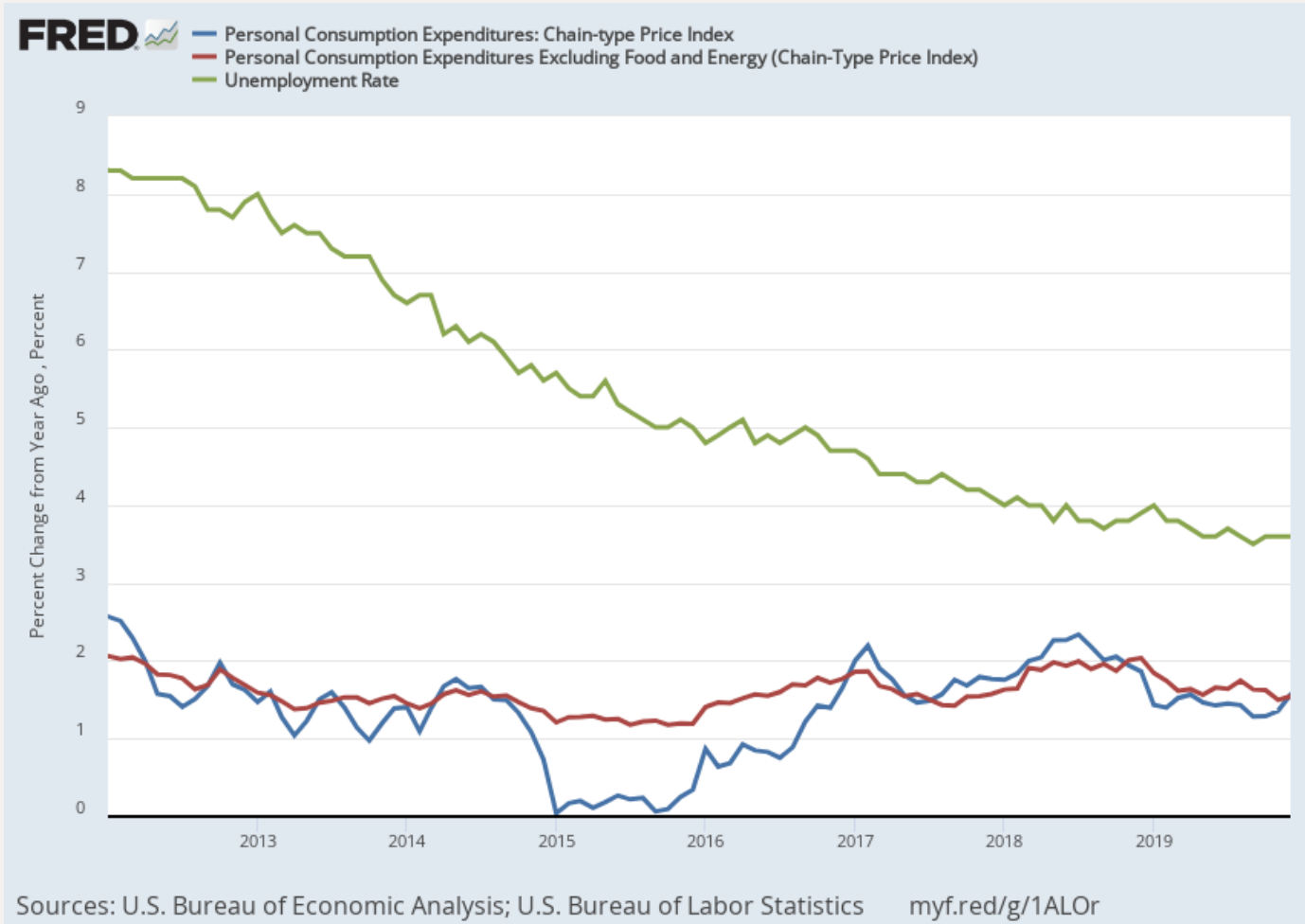
# The Fed's dual mandate goals: 2012 through 2020

Ellen Meade  
Research Professor  
Department of Economics

# 2012 Statement on Longer-Run Goals and Monetary Policy Strategy

- Landmark document for the Federal Open Market Committee (FOMC)
- First Committee articulation of inflation goal
- Provided context and background around the dual-mandate goals
  - “Inflation over the longer run is primarily determined by monetary policy”
  - Maximum employment “is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market”
    - “not be appropriate to specify a fixed goal for employment”
    - Included median longer-run  $u^*$  from the Summary of Economic Projections
- FOMC discussions in fall 2011 characterized the statement as a “quasi-constitutional” document
- Took almost a year to put the statement together

# Between 2012 and 2020



# Between 2012 and 2020

- FOMC discussions & staff materials
  - Lower level of the neutral rate of interest ( $r^*$ ) and its implications for meeting the dual-mandate goals
  - Strategies for getting inflation up to 2%, including consideration of a “shortfalls” approach
    - Policy would not react to unemployment below  $u^*$ , only unemployment above
  - Apparent flattening of the Phillips curve
  - “At the time of the Fed Listens events [2019], our country was experiencing the strongest labor market in 50 years and generating employment opportunities for many Americans who had not found jobs readily available in the past. One clear takeaway from these events was the importance of sustaining a strong job market, particularly for people from low- and moderate-income communities.”

# 2020 Statement on Longer-Run Goals and Monetary Policy Strategy

- Substantial update of the 2012 statement: “revolution” not “evolution”
- Changed the ordering of goals to reflect Federal Reserve Act
- Retained 2% inflation goal
- Introduced Flexible Average Inflation Targeting (FAIT)
- Doubled down on importance of inflation expectations
- Notable changes to the maximum employment side of the statement
- Much of the original language retained
  - “nonmonetary factors”
  - Not appropriate to specify fixed goal
- However, policy decisions informed by “shortfalls” of employment from its maximum, not “deviations” as in 2012
- Estimates of  $u^*$  were removed
- Maximum employment as a “broad based and inclusive” goal