In the last decade, economic research about information—what people know, how they learn it, and how they react—has created a revolution in how economists analyze macroeconomic policies.

Economists recognize that households, businesses, and government agencies invest considerable amounts of time and other resources monitoring economic policy and that they base private decisions on what they expect to happen. They then strive to make themselves as well-off as possible if their expectations are realized. For example, if people expect their tax liabilities to rise in the future because of large budget deficits today, they have an incentive to shelter their future income from taxes by altering their pattern of spending and investment. Consequently, tax revenues may even be lower in the future than the government expected.

Contemporary thinking about market expectations recognizes that markets often make mistakes about what policies the government will pursue. But people work hard to form correct and unbiased opinions about future events, including government policies. If people are correct on average about future policies, then government policymakers should not count on being able to persuade or influence the public for long periods of time. For example, if federal deficits rise every year despite announced plans to reduce them, future announcements will be discounted and eventually ignored. Policymakers need to reconsider their own roles in our economic system in light of these views about information.

Inflation rates over the last several years have eroded the purchasing power of the dollar and have impaired economic efficiency. The Federal Reserve could move more effectively toward its stated goal of price stability through an information program stating its goals, methods, and timetables for achieving zero inflation.

I am especially interested in how the Federal Reserve could enhance our nation’s economic efficiency by providing and disseminating monetary policy information in a different way. Our inflation rate has hovered around 4 percent for about half a dozen years; this year, the rate could easily exceed 5 percent. Some people recall that inflation rates were about twice that amount only eight years ago, and regard 4 to 5 percent as an acceptable standard for success. But a 4 to 5 percent inflation rate means that the overall price level increased by 30 percent during the last six years, severely diminishing the purchasing power of the dollar. I am deeply disappointed by this performance. Continuing inflation rates of this mag-
I suggest that we as a nation eschew the goal of price-level stability and begin immediately to attain zero inflation in a few years. The Federal Reserve could make such a program more credible by clearly announcing this goal and a timetable for achieving it. Through periodic statements, the Federal Reserve could communicate its commitment to this objective. Economic developments are likely to affect the inflation rate over time, and the Fed plans to react. In other words, the Federal Reserve program designed to enhance the attainment of this goal. Although the Federal Reserve might sometimes make mistakes, I believe this process would maximize our nation's economic performance over the long run.

When I refer to price stability, I mean zero inflation. A strong case can be made for having the paramount goal of monetary policy be the complete elimination of inflation. Inflation obscures market information, adds distortion, or "noize," to prices, and strips experiences across sectors of the economy, the timing of investments, and corporate financial structures. In short, inflation can be regarded as an information impairment that reduces economic growth. Any nation could improve the welfare of its citizens by eliminating inflation. Inflation interacts negatively with our welfare because it reduces economic growth and, as a result, makes people worse off than they would be.