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Opening Remarks

[Narayana Kocherlakota](#) - President
Federal Reserve Bank of Minneapolis

Conversations with the Fed
Federal Reserve Bank of Minneapolis
January 9, 2014

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Thank you all for coming out tonight to take part in this public discussion about the Federal Reserve, monetary policy and the economy. As many of you know, this event is part of a broader series that we call Conversations with the Fed, which has featured presentations on issues ranging from financial payments to the health of the banking industry to the size of the Fed's balance sheet. All of these events have been well

attended and, like good economists, we have duly noted this demand and plan to continue to supply these events in the future.

Today's conversation is taking place in the headquarters of the Ninth (of 12) Federal Reserve districts. But the Ninth District is a far-flung one that includes the states of Montana, North and South Dakota, Minnesota and parts of Wisconsin and Michigan. For that reason, we hold similar conversations throughout the Ninth District. Indeed, we're redoubling those efforts this calendar year in honor of the centennial of the opening of the 12 Reserve Banks and the start of the work undertaken by the Federal Reserve System. The video that we just watched gives you an overview of some of that work by the people who are actually doing it: the many employees of the Federal Reserve System. We also have a new website we've created at federalreservehistory.org. I encourage you to visit this site to learn more about the people, places and events that have shaped Federal Reserve history.

There are some fascinating historical tidbits on the website that I could go on about at length, but I realize you all may not be quite as excited about Fed history as I am. I will say that if you have even the slightest curiosity about things like how the cities were chosen to host Reserve Banks, I would encourage you to attend an installment of Conversations with the Fed on May 8. It will feature Niel Willardson, our general counsel and corporate secretary, who be talking about the history of the Federal Reserve Act and answering the perennial question of why Minneapolis and not St. Paul.

I won't steal Niel's thunder for that presentation, but I do want to address one of the things that I think has changed the most over the Federal Reserve's history, and that is our communication with the public. A hundred years ago, Congress created a system that was designed specifically so that the residents of Main Street would have a voice in monetary policy. The ways in which we gathered information from Main Street have obviously changed considerably over the years, as new technologies have come into being, but this fact-finding continues to be an important part of how we conduct monetary policy.

Communication is a two-way street, however. During the past century, the Federal Reserve's communications to the public about its monetary policy actions have also evolved greatly. The pace of change has been especially rapid in the past eight years under Chairman Bernanke's leadership. During that time, the Federal Reserve has specified an explicit target for inflation, begun holding regular press conferences and greatly expanded its use of forward guidance—that is, its communications about the likely future evolution of policy.

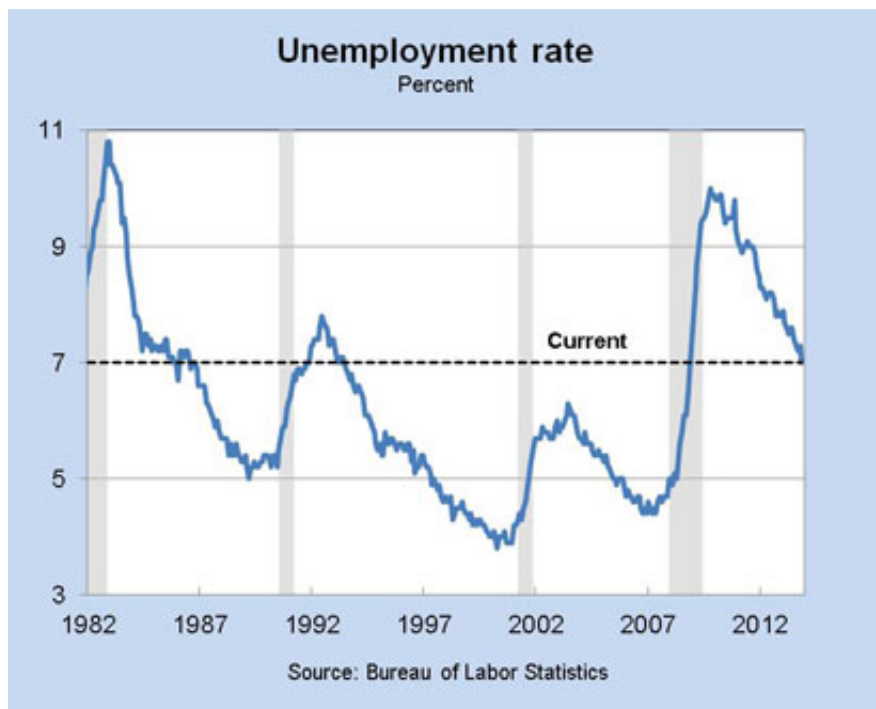
So, as the Federal Reserve System plans for its second century, I would say that the importance of two-way communication is a key lesson from the System's first century. In order for the Fed to continue to be effective, it needs to communicate its policy decisions transparently to the public. Conversely, it also needs the public's input on how those policies are affecting them. Events like the one today are a key part of fostering that two-way communication.

With that as context, let me turn now to the business at hand: the current state of the economy. Throughout my remarks, I'll be referring to the Federal Open Market Committee, or FOMC. It meets eight times per year to set the course of monetary policy in the United States. The presidents of the 12 Reserve Banks and the governors of the Federal Reserve System all participate fully in the deliberations at those meetings. However, only the governors, the president of the Federal Reserve Bank of New York and four other presidents actually vote on the Committee's actions. This last set of four presidents changes annually. In 2014, I will be a voting member, along with the presidents of the Philadelphia, Cleveland and Dallas Federal Reserve Banks. As you listen to me talk about the economy and the stance of monetary policy, always remember: The views you will

hear tonight are my own and not necessarily those of my colleagues on the Federal Open Market Committee.

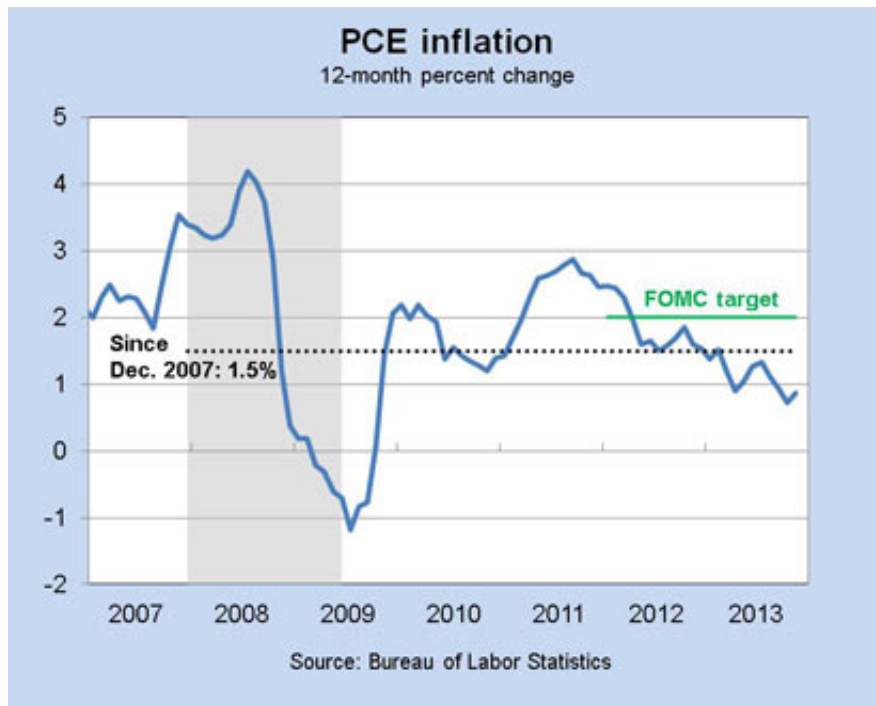
Congress has mandated that the FOMC make monetary policy so as to promote two objectives: price stability and maximum employment. Beginning in 2012, the Committee has explicitly translated the first goal into a 2 percent target for personal consumption expenditure, or PCE, inflation. This is a measure of inflation that includes all goods and services, including those related to food and energy. The Committee's second goal—maximum employment—is less rigid, because long-run employment is influenced by many variables outside the control of monetary policy. However, most FOMC participants project that, over the longer run, unemployment will be between 5 percent and 6 percent if monetary policy keeps inflation close to 2 percent.

It is useful to examine the recent evolution of the economy in light of these two objectives. First, I will show you data on the unemployment rate over the past 30 years or so. You can see that the unemployment rate peaked at 10 percent after the Great Recession. It has fallen disturbingly slowly. Indeed, you can see on this graph that the unemployment rate fell much more rapidly in 1983 and 1984 after peaking at over 10 percent.



[Large chart](#)

Second, I will show you data on PCE inflation. Since the beginning of the Great Recession, PCE inflation has averaged only 1.5 percent—well under the FOMC's target of 2 percent. Note too that PCE inflation has trended downward since early 2012 and is currently running at close to 1 percent.



[Large chart](#)

These graphs show us the past, but what about the future? The FOMC has said that, under its current monetary policy stance, it expects the unemployment rate to decline gradually to desirable levels. It has said too that it expects inflation to move back toward 2 percent over the medium term. By easing monetary policy relative to its current stance, the FOMC could facilitate a more rapid fall in unemployment and more rapid return to 2 percent inflation. Hence, the Committee could do better with respect to both of its congressionally mandated objectives by adopting a more accommodative monetary policy stance.

That concludes my formal remarks. Thank you all once again for joining us here tonight, and now I look forward to fielding your questions.

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