March 24, 2016

St. Louis Fed President James Bullard discussed whether the FOMC's decision earlier this month to leave the policy rate unchanged was an example of time-inconsistent policymaking, given that the state of the U.S. economy then was arguably consistent with the FOMC's Summary of Economic Projections (SEP) from December, which could have led some to believe an increase was warranted. During a presentation to the New York Association for Business Economics, he said that some key changes to the SEP in March were enough to justify a somewhat different policy stance than would otherwise have been warranted. He concluded that it is reasonable to interpret the FOMC as remaining time-consistent at the March meeting.

St. Louis Fed's Bullard Discusses Time Consistency and Recent Fed Policy

NEW YORK – Federal Reserve Bank of St. Louis President James Bullard discussed ["Time Consistency and Fed Policy"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-nyabe-24-mar-2016.pdf)in a presentation Thursday to the New York Association for Business Economics.

Bullard addressed the Federal Open Market Committee's (FOMC) decision to leave the policy rate unchanged at its March meeting and the importance of whether this action could be viewed as "time inconsistent" in macroeconomics literature terms.

Each quarter, the FOMC releases an updated Summary of Economic Projections (SEP), which outlines economic projections for key macroeconomic variables (real GDP growth, unemployment, headline and core inflation), as well as a projected path for the appropriate policy rate. He noted that the December 2015 SEP suggested four policy rate increases of 25 basis points each during 2016.

"The state of the U.S. economy as of the March 2016 FOMC meeting was arguably consistent with December 2015 SEP projections. Yet, the

Committee did not increase the policy rate at the March meeting," Bullard said. "This state of affairs might be viewed as 'time inconsistent' in the macroeconomics literature. Financial markets may have trouble interpreting Fed behavior in the future if this is the case."

He further noted that expectations are important in macroeconomics. "Not following through on a proposed action can damage a policymaker's credibility," he said.

Comparison of December and March

In evaluating whether the December-March episode was an example of time-inconsistent policymaking, Bullard compared the state of the economy as of the December FOMC meeting to the state of the economy as of the March FOMC meeting.

In addition to looking at the variables that contribute to the SEP, he included three other variables that may influence FOMC decision-making above and beyond expected developments of the real economy and inflation. He examined the St. Louis Fed Financial Stress Index, a U.S. financial conditions index; a global real GDP growth outlook, from the International Monetary Fund's World Economic Outlook; and TIPS-based measures of inflation expectations.

After discussing how each variable changed between the December and March FOMC meetings, Bullard summarized the changes in the following "scorecard":

- The outlook for U.S. and global growth was downgraded somewhat.
- The outlook for the U.S. labor market was upgraded somewhat.
- The outlook for all other variables was about the same as of the December FOMC meeting.

"Certainly a case could be made that as of March, the economy had progressed about as had been expected in December," Bullard said. "Therefore, the Committee might have been expected to follow through with its December policy rate projection at the March meeting."

However, he noted, this would have relied on a view that the labor market upgrade essentially offset the global and U.S. growth downgrade. “As it turns out, the decision to pause seems to have put more weight on the global and U.S. growth downgrade,” he said.

Bullard concluded that the FOMC did not have to raise the policy rate in March to remain time-consistent. “On balance, I think it is reasonable to interpret the Committee as remaining time-consistent at the March meeting,” he said. Bullard noted that some key, although minor, changes to the SEP projections were enough to justify a somewhat different policy stance than would otherwise have been warranted. “The difference in macroeconomic outcomes between moving at one meeting versus another is currently small,” he added.

“The relatively minor downgrades contained in the March SEP suggest that the next rate increase may not be far off provided that the economy evolves as expected,” Bullard said.

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- **March 21, 2016**. Presentation. "Economic Inequality and Possible Policy Responses," Hyman P. Minsky Lecture, Weidenbaum Center on the Economy, Government, and Public Policy.
  Presentation (pdf) (bullard-minsky-lecture-21-mar-2016pdf).

  Economic Inequality and Possible Policy Responses

  March 21, 2016

  St. Louis Fed President James Bullard discussed economic inequality in the U.S.—in particular, wealth, income and consumption inequality—and what types of policy might reduce inequality. His remarks were part of the Hyman P. Minsky Lecture that he delivered at the Weidenbaum Center on the