

How can the Fed best communicate its policy and strategy?

SOMC conference

April 7, 2025

Don Kohn

Senior Fellow

Brookings

“As we begin this process later this year, we will be open to criticism and new ideas, while preserving the strengths of our framework. The limits of our knowledge—so clearly evident during the pandemic—demand humility and a questioning spirit focused on learning lessons from the past and applying them flexibly to our current challenges.”

JP at JH 2024

Challenges

- Conveying uncertainty and the limits of predictability
- Conveying possible reaction functions
- Communicating with the broader public and the members of Congress

Conveying uncertainty and the limits of predictability

- Forecast-based monetary policy is best-practice
 - Even if every forecast will be wrong
 - Best we can do is get the broad features and general tendencies right
 - And know when incoming data suggest they need to be revised enough to affect the current and expected future settings of monetary policy
- To communicate an appropriate degree of uncertainty
 - Remove the medians from the SEP and from Fed discussion of future policy
 - Including medians for the “stars”
 - Focus on the **story** of how the economy is evolving and its broad policy implications
 - Alternative scenarios (?)

Conveying possible reaction functions

- Alternative scenarios
 - Possible policy reactions will be model-driven
- SEP could adopt common assumptions for some exogenous variables, like fiscal policy, tariff levels, foreign growth
 - Whether a change in economic outlook reflects shifting underlying dynamics or exogenous shocks could affect the policy response
- Possibly connect individual forecasts to shed light on individual reaction functions
- More discussion of rationales for QE/QT decisions along with forward guidance

Communicating with the broader public and members of Congress

- Brookings survey suggests Fed is doing pretty well with academics and market participants. General public not surveyed, but...
- Layered communication
 - Main themes in plain language
 - Outlets beyond the usual Fed press
 - Bernanke on 60 minutes
- The story or narrative
- The reserve bank cacophony
 - Brookings survey: give us less!
 - More dissents; fewer interviews?