

Reviewing the Federal Reserve's 2025 Monetary Policy Framework Review

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Abstract

We review the Federal Reserve's 2025 monetary policy framework review in order to determine the extent to which (1) the review process promoted the discovery of new ideas and critical feedback and (2) the resulting revisions addressed problems with the prior framework. To this end, we consider the evolution and performance of the prior framework, evaluate the review process, and assess the revisions to the Statement on Longer-Run Goals and Monetary Policy Strategy. We find that the review process limited the discovery of new ideas and critical feedback by restricting the scope of potential alternatives, scheduling internal discussions prior to events intended to generate external input, and adopting ineffective structures for some Fed Listens events. These departures from best practices may help explain the inadequacies we identify with the resulting revisions, which replaced asymmetric flexible average inflation targeting with potentially-symmetric flexible inflation targeting and appears designed to preserve optionality rather than communicate the Federal Open Market Committee's reaction function.

Keywords: Federal Reserve, flexible average inflation targeting, flexible inflation targeting, inflation, maximum employment, monetary policy, nominal spending targeting, price level targeting, price stability

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List of Abbreviations:

AIER, American Institute for Economic Research

BPEA, Brookings Papers on Economic Activity

ELB, Effective Lower Bound

FAIT, Flexible Average Inflation Targeting

Fed, Federal Reserve

FIT, Flexible Inflation Targeting

FOMC, Federal Open Market Committee

LRU, Long-Run Unemployment Rate

PCE, Personal Consumption Expenditures

SEJ, Southern Economic Journal

SPU, Stable-Price Unemployment Rate

1 Introduction

The Federal Reserve (Fed) recently conducted a review of its monetary policy framework. The review, which began in January 2025, consisted of discussions held at several Federal Open Market Committee (FOMC) meetings, Fed Listens events organized around the country, and a research conference hosted by the Fed’s Board of Governors. The FOMC concluded its review in August 2025, with Fed Chair Jerome Powell announcing the resulting revisions at the annual Jackson Hole Economic Policy Summit.

At the start of the review, [Powell \(2025b\)](#) said the FOMC would “be open to new ideas and critical feedback” and “take on board lessons of the last five years in determining our findings.” With the review now concluded, two questions follow naturally from Powell’s statement:

1. Did the Fed’s review process encourage the discovery of new ideas and critical feedback?
2. Did the Fed’s revisions reflect the lessons learned over the last five years?

In what follows, we review the Fed’s framework review in order to answer these two questions. We explain how the Fed’s prior flexible average inflation targeting (FAIT) framework came to be in [Section 2](#), and how that framework contributed to the high inflation experienced from 2021 to 2024. We consider the review process in [Section 3](#) and the revisions in [Section 4](#). We find that the Fed’s review process could have done more to promote the discovery of new ideas and critical feedback. Perhaps as a consequence, the resulting revisions only partially addressed the problems with the prior framework.

2 The Fed’s Prior Framework

Since 1977, Congress has instructed the Fed to “maintain long run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate

long-term interest rates.”¹ However, Congress has also given the Fed much discretion in defining and executing this mandate. How will the Fed define the goals of maximum employment, stable prices, and moderate long-term interest rates? What strategy will it implement to achieve those goals? What tools will it employ to execute that strategy? How will it communicate its intentions and actions to the public? Taken together, the answers to these questions form the Fed’s monetary policy framework.

The Fed describes its monetary policy framework in its Statement on Longer-Run Goals and Monetary Policy Strategy. This document, known internally as the “consensus statement,” was initially released in 2012 and revised in 2016, 2020, and 2025. In this section, we review the development and evolution of the consensus statement through 2020. We also consider the performance of the framework leading up to the 2025 review.

2.1 Flexible Inflation Targeting and the 2012 Strategy Statement

Flexible inflation targeting (FIT) emerged as best practice monetary policymaking beginning in the 1990s. Whereas inflation is the only objective under a strict inflation target, FIT allows the central bank to stabilize economic activity as well (Svensson, 1999; Gourio et al., 2025). Bernanke et al. (1999) describe in detail the defining features of FIT, argue for its advantages, and present a series of case studies according to which FIT was adopted to good effect, first by the Reserve Bank of New Zealand in 1990 and then by a host of other central banks around the world in the years that followed.

In the United States, the Federal Reserve came late to the FIT party. As a matter of fact, the history of Fed strategy from the 1990s onward appears, in retrospect, as one in which institutional inertia and excessive backward-looking behavior eventually led to grossly miscalibrated monetary policy decisions, culminating with the post-2020 inflationary surge.²

As Lacker (2020) recounts, FOMC members discussed the possibility of publicly adopting

¹Steelman (2011) reviews the history of the Fed’s mandate. Thornton (2012) discusses the Fed’s reluctance to mention the employment portion of its mandate prior to December 2008.

²Rotemberg (2013) considers a much longer period and reaches a similar conclusion.

a FIT framework periodically throughout the 1990s and 2000s. They did not succeed in doing so, however, until the release of their 2012 Statement on Longer-Run Goals and Monetary Policy Strategy ([Federal Open Market Committee \(2012\)](#), hereafter “2012 Strategy Statement”).³ In Lacker’s view, the FOMC’s delay in adopting FIT reflected partly its members’ desire to preserve a more discretionary approach to monetary policymaking. But the Committee’s hesitation, Lacker explains, was also based on worries that, despite the professional consensus summarized by [Bernanke et al. \(1999, p.22\)](#) that FIT leaves the central bank with “considerable scope to respond to unemployment conditions, exchange rate fluctuations, and other short-run phenomena,” a public commitment to the strategy would be seen as elevating stable prices over maximum employment in contradiction of the Fed’s statutory dual mandate. In any case, through the release of the 2012 Strategy Statement, the FOMC finally overcame both sets of concerns.

[Ireland \(2025\)](#) provides an intellectual history that complements Lacker’s institutional narrative, tracing the ideas behind the 2012 Strategy Statement back to innovations in macroeconomic theory that came first with the development of the natural rate hypothesis by [Phelps \(1967\)](#), [Friedman \(1968\)](#), and [Lucas \(1972\)](#) in the late 1960s and early 1970s and culminated with the rise of New Keynesian economics, coincident with the widespread adoption of FIT by the world’s central banks, in the 1990s. Consistent with the natural rate hypothesis, the 2012 Strategy Statement recognizes that “the inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation.” The statement goes on to set a specific, numerical target for longer-run “inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures.”

Also consistent with the natural rate hypothesis, the 2012 Strategy Statement admits that “the maximum level of employment is largely determined by nonmonetary factors that affect

³According to [Gourio et al. \(2025, pp. 2, 6\)](#), the 2012 Strategy Statement “was seen as ‘quasi-constitutional’ with respect to the Committee’s behavior,” and “participants agreed that they did not expect to change it often, and certainly not without a very broad majority.”

the structure and dynamics of the labor market.” Noting as well that “these factors may change over time and may not be directly measurable,” the Statement explains that “it would not be appropriate to specify a fixed goal for employment; rather, the Committee’s policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain and subject to revision.”

The 2012 Strategy Statement seems to reflect the tensions that [Lacker \(2020\)](#) finds in earlier FOMC deliberations and debates over FIT. After setting an explicit numerical target for long-run inflation but declining to do the same for employment, the [Federal Open Market Committee \(2012\)](#) emphasizes that, in pursuing its statutory dual mandate, “the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee’s assessments of its maximum level.” Importantly, however, the Statement is quick to note that “these objectives are generally complementary.”

As [Ireland \(2025\)](#) discusses in greater detail the view that the two sides of the dual mandate are more often in harmony than in conflict reflects the profession’s reinterpretation of the Phillips curve relationship, encapsulated in what [Blanchard & Gali \(2007\)](#) call the New Keynesian “divine coincidence.” Whereas traditional Keynesian formulations of the Phillips curve link inflation to the output gap, which is defined as the deviation of output from a slow-moving trend, the New Keynesian Phillips curve depicts movements in inflation as driven by a welfare-theoretic measure of the output gap defined instead as the deviation of output from its natural rate—that is, the level of output that would prevail in the absence of nominal rigidities. Accordingly, the New Keynesian output gap may vary considerably even at high frequencies as the economy is buffeted by a variety of shocks. Thus, while the traditional Keynesian model as expounded, for example, by [Samuelson & Solow \(1960\)](#) emphasizes the trade-off between stabilizing inflation on the one hand and output or employment on the other, the New Keynesian model implies that, by stabilizing inflation and inflationary expectations first, monetary policy also allows output and employment to adjust efficiently to those shocks. There is no trade-off, in these circumstances, between stabilizing inflation and stabilizing the appropriately-measured output gap.

As [Blanchard & Galí \(2007\)](#) take care to emphasize, the divine coincidence holds only in special cases. Most notably, as [Clarida et al. \(1999\)](#) demonstrate, painful policy trade-offs between inflation and output gap stabilization re-emerge in the New Keynesian model when the economy gets hit by cost-push shocks that, working through the supply side, affect inflation independently of the correctly-measured output gap. But the 2012 Strategy Statement allows for this possibility as well. It concludes by prescribing a “balanced approach” to monetary policy-making “under circumstances in which the Committee judges” that its inflation and employment objectives “are not complementary.”

This call for a balanced approach in responding to aggregate supply shocks that tend to move inflation and the output gap in opposite directions might be criticized for being incomplete or vague. In fact, the FOMC itself struggled at great length, without success, to clarify the meaning of this term at its October 2014 meeting ([Federal Open Market Committee, 2014b](#), pp.167-258). Despite this lack of specificity, however, the general appeal to preserving a balanced approach serves as a useful reminder to policymakers to avoid the kind of excessive monetary accommodation that can—and unfortunately did in 2021 and 2022—turn transitory price pressures set off by supply shocks into larger and more persistent movements in inflation. Overall, therefore, [Ireland \(2025\)](#) concludes that by outlining a small set of basic principles consistent with contemporary macroeconomic theory, the 2012 Strategy Statement successfully left the FOMC with a useful FIT framework.

2.2 The Threat of Low Inflation and the 2016 Revisions

Ironically, the FOMC’s successful but belated adoption of FIT principles through its 2012 Strategy Statement came just as stubbornly persistent rates of inflation below the targets set by other central banks around the world had led both policymakers and academic economists to start questioning the usefulness of that very framework. For example, a collection of essays from [VoxEU.org](#), the policy portal of the London-based Centre for Economic Policy Research, was published the following year ([Reichlin & Baldwin, 2013](#)) with the ominous title: “Is inflation

targeting dead?”

At the Fed, similar debate and discussion surfaced at the January 2014 FOMC meeting, as the Committee considered re-affirming or revising the 2012 Strategy Statement. In light of the low inflation that continued to prevail even as the US economy recovered from the 2008-09 financial crisis and recession, Federal Reserve Bank of Boston President Eric Rosengren suggested early on in the discussion that Committee members clarify whether, as a group, they viewed the 2 percent inflation objective as a “target” or a “ceiling” ([Federal Open Market Committee, 2014a](#), p.10). Federal Reserve Governor Daniel Tarullo followed up by stating more directly that, while “some members of the Committee would be distressed with a forecast that inflation would be 2.6 percent, 2.4 percent, and 2.3 percent, respectively, over the next several years . . . as we sit here today, we have a forecast of inflation at 1.4 percent, 1.6 percent, and 1.7 percent . . . deviating on the downside by exactly the amounts hypothesized as upside deviations a moment ago” ([Federal Open Market Committee, 2014a](#), p.11).

Despite these concerns, the FOMC left the Strategy Statement unchanged until January 2016, when a slight revision explicitly described the 2 percent objective as a “symmetric inflation goal” and added that “the Committee would be concerned if inflation were running persistently above or below this objective” ([Federal Open Market Committee \(2016\)](#), hereafter “2016 Revised Statement”). Thus, again with a lag, FOMC members arrived at the same general conclusion as the authors collected in [Reichlin & Baldwin \(2013\)](#): that persistently sluggish inflation called for refinement, and not outright rejection, of the FIT strategy. However, more significant changes to the Strategy Statement would come several years later.

2.3 The 2019 Strategic Review and the 2020 Revisions

In 2019, the Fed conducted a major strategic review, intended, as [Powell \(2020\)](#) recalls, to “assess the monetary policy strategy, tools, and communications that would best foster achievement of our congressionally assigned goals of maximum employment and price stability over the years ahead,” particularly in light of “the persistent undershoot of inflation from our 2% longer-run

objective.” Behind the problem of persistent low inflation lie the technical challenges posed by the effective lower bound (ELB) on interest rates. Again, in Powell’s words: “By reducing our scope to support the economy by cutting interest rates, the lower bound increases downward risks to employment and inflation.”⁴

As [Ireland \(2025\)](#) points out, macroeconomic theory had already provided a clear solution to the ELB problem, which the FOMC could have taken and used right off the shelf to shape the results of its 2019 review. In particular, New Keynesian models confirm Powell’s assertion, that in a low-inflation environment, the long-run neutral setting for the federal funds rate will also be low, leaving less room for policy easing through interest rate cuts during cyclical downturns. New Keynesian models also imply, however, that this difficulty can be overcome by asking the central bank to target the level of prices instead of inflation. [Svensson \(2001\)](#), [Eggertsson & Woodford \(2003\)](#), and [Mertens & Williams \(2020\)](#) provide statements of this result, with the third reference being perhaps the most significant, despite its later publication date, because one of its authors was (and still is) president of the Federal Reserve Bank of New York and a permanent voting member of the FOMC.

Compared to inflation targeting, price-level targeting provides two advantages. First, by bringing the level of prices back up to a multi-year target path, a price-level target prevents a series of modest, but single-sided, deviations of inflation below target, like those experienced during and after the 2008-09 recession, from cumulating into large gaps between the actual level of prices and the level of prices consumers and businesses expected when making long-term economic and financial plans. Second, by observing those same dynamics, consumers and business will come to expect that periods of low inflation, as seen during a recession, will be followed by periods of higher inflation. The resulting increase in expected inflation then works, during a cyclical downturn, even when nominal interest rates are constrained by the effective lower bound, to lower real rates of interest and thereby provide additional monetary stimulus exactly when it is needed most. As [Beckworth \(2019\)](#) explains, these advantages can also be

⁴Framework reviews conducted for advanced foreign economy central banks around this time also considered the challenges of conducting monetary policy at or near the effective lower bound ([Gordon et al., 2025](#), p. 4).

realized under a nominal income level target.

[Mertens & Williams \(2020\)](#) show that the desirable features of a level-targeting scheme are shared by two closely-related monetary policy strategies. “Make-up” strategies promise to deliver periods of temporarily higher inflation following periods of low inflation and vice versa, while retaining most of the other features of a more basic FIT framework. And “average inflation targeting” strategies, while also retaining other elements of FIT, replace an explicit numerical objective for annual inflation with one that applies to inflation when averaged over a period of several years.

In fact, the Fed’s 2019 strategic review led to a heavily-revised 2020 Statement of Longer-Run Goals and Monetary Policy Strategy ([Federal Open Market Committee \(2020\)](#), hereafter “2020 Revised Statement”) that, at first glance at least, replaces FIT with flexible average inflation targeting long the lines envisioned by [Mertens & Williams \(2020\)](#). After observing that “the federal funds rate is likely to be constrained by its effective lower bound more frequently than in the past,” the 2020 Revised Statement reaffirms the FOMC’s two-percent inflation objective. It goes on to explain, however, that “in order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.”

Of course, a true price-level or average inflation targeting strategy would also specify that appropriate monetary policy will likely aim to achieve inflation moderately *below* 2 percent for some time when inflation has been running persistently *above* 2 percent. Does the 2020 Revised Statement omit the Fed’s view of appropriate monetary policy when inflation is above-target by oversight or design? [Beckworth & Horan \(2025\)](#) argue persuasively that the asymmetry was intended, citing speeches by Federal Reserve Vice Chair Richard Clarida, Federal Reserve Governor Lael Brainard, and Federal Reserve Bank Presidents Charles Evans and John Williams as evidence. Thus, through this first element of asymmetry alone, the FOMC’s own version of

FAIT was heavily influenced by the post-2008 experience and therefore heavily biased towards the creation of higher inflation.

Moreover, several other changes in the 2020 Revised Statement reinforce this inflationary bias. First, while the original 2012 Strategy Statement prescribes a monetary policy response to “deviations of employment from the Committee’s assessments of its maximum level,” the 2020 Revised Statement calls for a response only to employment “shortfalls.” This change in language reinforces the Fed’s commitment to deliver additional monetary stimulus during cyclical downturns, but in doing so also abandons the pre-emptive approach implied by the 2012 Strategy Statement and 2016 Revised Statement to remove monetary stimulus before (rather than after) inflation rises above target. As [Gourio et al. \(2025, p. 16\)](#) write in a Fed staff paper prepared for the 2025 framework review, the “change to ‘shortfalls’ aimed to clarify that employment could run at or above real-time estimates of its maximum level without causing concern, unless accompanied by signs of unwanted increases in inflation or the emergence of other risks that could impede the attainment of the FOMC’s goals.”⁵

Second, the 2020 Revised Statement describes the Fed’s maximum employment objective, but not the inflation objective, as a “broad based and inclusive goal.” This change would seem to signal a greater willingness to run the economy hot, with the unemployment rate falling below the natural rate, than had prevailed under the prior framework. When describing it at the Jackson Hole Economic Policy Symposium, [Powell \(2020\)](#) said the “change reflects our appreciation for the benefits of a strong labor market, particularly for many low- and moderate-income communities.” [Bundick et al. \(2025, p. 4\)](#) are somewhat more explicit in a staff paper prepared for the 2025 framework review:

The economic environment preceding the 2019–20 framework review suggested that

⁵[Foote et al. \(2025, p. 2\)](#) similarly note that the “economic environment leading up to the pandemic suggested that the level of maximum employment could be higher than previously believed and, therefore, a robust labor market could be sustained for an extended period without fueling inflation.” [Bundick et al. \(2025, p. 3\)](#) more clearly state that “a shortfalls approach to pursuing maximum employment does not try to reduce employment solely because it is above its perceived longer-run maximum level.” However, they also claim it “does not preclude using labor market indicators to monitor incipient inflationary pressures during a tight labor market that could impede the attainment of the Committee’s dual-mandate goals.”

the Phillips curve could, in fact, be flatter than previously thought. If the Phillips curve is flat, a tightening in the labor market during an economic expansion may not lead to significant inflationary pressures. That is, policy can support a demand-driven expansion with lower risk of generating inflationary pressures, thereby generating broad-based demand for labor without jeopardizing price stability.

Only later, after high inflation had already emerged, did [Powell \(2022\)](#) also concede that “the burdens of high inflation fall heaviest on those who are least able to bear them.”

Third, finally, and perhaps most puzzling of all, the 2020 Revised Statement drops reference to the “balanced approach” to policymaking in circumstances where the Fed’s inflation and employment objectives are not complementary. Instead, the Revised Statement indicates, even more cryptically, that the Committee “takes into account the employment shortfalls and inflation deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.” [Gourio et al. \(2025\)](#) suggest reference to the balanced approach was removed because its “exact meaning was open to interpretation” and claim this omission “did not suggest that one objective was more important than the other.” However the revised text would seem to invite *more* interpretations by leaving open the possibility that one objective *might* be given more weight than the other when the FOMC’s objectives are in conflict—that is, by permitting interpretations presumably ruled out by reference to the balanced approach.

2.4 Flexible Average Inflation Targeting in Practice

To be fair, no one could have foreseen the unprecedented and astonishing chain of events that triggered the recession of 2020 and ultimately led to the burst of high inflation that followed. In retrospect, though, it seems equally fair to say that the timing of the FOMC’s adoption of asymmetric FAIT could not have been worse. The strategy’s inbuilt biases tilted the Fed’s response to aggregate demand disturbances towards the creation of higher inflation. Worse still, its abandonment of the “balanced” response to aggregate supply shocks left backward-looking

policymakers highly vulnerable to over accommodation. While the details could not have been foreseen, the final outcome—what [Levy \(2024, p.261\)](#) rightly calls “the biggest monetary policy error and the highest inflation since the 1970s”—appears unsurprising.

Throughout 2021, FOMC members were slow to recognize that aggregate demand had rebounded sharply, a delay that was consistent with the asymmetric reaction function embedded in the Fed’s particular brand of FAIT. Instead, rising inflation was largely interpreted through the lens of pandemic-related supply disruptions. This view was reflected repeatedly in post-meeting statements in April, June, July, and September 2021, which described elevated inflation as “largely reflecting transitory factors” ([Bergman & Luther, 2022](#)).

The Summary of Economic Projections from 2021 and 2022 reinforce this interpretation. [Table 1](#) reports the median inflation and federal funds rate projections alongside realized inflation at the time of each projection ([Federal Open Market Committee, 2021a,b,c,d, 2022a,b,c,d](#)). Over the course of 2021, and conditional on already elevated year-to-date inflation, these projections implied that inflation over the remaining months of the year would return toward 2 percent. Consistent with that expectation, policymakers projected only a slow path of policy tightening extending into 2022.

Table 1: Median FOMC Member’s Actual and Implied PCE Inflation Projections and Federal Funds Rate Projections for 2021 and 2022

	Inflation Projection for Current Year	Annualized Inflation Year-to-date	Implied Annualized Inflation for Remaining Months	Actual FFR Range	Median FFR Projection		
					2021	2022	2023
Mar-21	2.4%	5.1%	2.2%	0.00–0.25%	0.1%	0.1%	0.1%
Jun-21	3.4%	5.7%	2.3%	0.00–0.25%	0.1%	0.1%	0.6%
Sep-21	4.2%	5.9%	1.9%	0.00–0.25%	0.1%	0.3%	1.0%
Dec-21	5.3%	5.8%	2.7%	0.00–0.25%	0.1%	0.9%	1.6%
Mar-22	4.3%	6.0%	4.1%	0.25–0.50%	-	1.9%	2.8%
Jun-22	5.2%	5.8%	4.3%	1.50–1.75%	-	3.4%	3.8%
Sep-22	5.4%	6.1%	4.1%	3.00–3.25%	-	4.4%	4.6%
Dec-22	5.6%	5.8%	3.4%	4.25–4.50%	-	4.4%	5.1%

Notes: Annualized inflation year-to-date reflects the change in prices from the beginning of the year in which the projection was made through last month for which PCE data was available at the time of the projection. Implied annualized inflation rate for remaining months is determined by the change in prices required over the months not yet recorded at the time of the projection to achieve the median FOMC member’s projection for the year given the the change in prices that had already been recorded.

By late 2021, confidence in the transitory supply-disruptions view began to erode. In De-

ember 2021, the FOMC dropped references to transitory inflation and explicitly acknowledged that “supply and demand imbalances” were contributing to elevated inflation.⁶ Yet this shift in diagnosis was not immediately matched by a corresponding shift in policy, reflecting the framework’s emphasis on gradualism even after demand-side pressures became apparent.⁷ Rather than raising its policy rate, the FOMC opted to taper asset purchases and signaled that liftoff would likely occur in March 2022. Even then, projections implied only a gradual tightening path. According to the December 2021 Summary of Economic Projections (see Table 1), the median FOMC member anticipated a federal funds rate below 1 percent by the end of 2022, despite inflation already running far above target. In effect, policymakers recognized the demand-side problem but did little to address it.

The costs of this gradualism became apparent in early 2022. Incoming inflation data consistently exceeded FOMC projections, yet policy adjustments remained incremental. Figure 1 illustrates how realized Personal Consumption Expenditures (PCE) prices quickly diverged from the price paths implied by the median FOMC member’s projections in December 2021 and early 2022. The first rate increase did not occur until March 2022 and amounted to just 25 basis points, even as inflation remained elevated.⁸ Subsequent rate hikes in May and June were larger, but inflation continued to outpace expectations, keeping the real policy rate deeply negative. Rising inflation thus passively loosened monetary policy at a time when restraint was required.

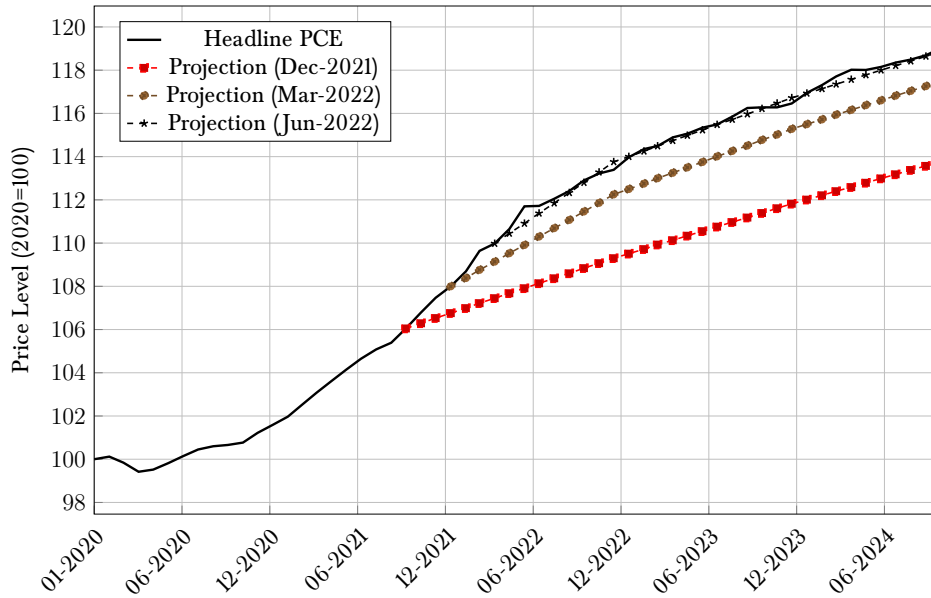
It was not until mid-2022 that the FOMC shifted to more aggressive tightening. By then, however, the surge in nominal spending had already pushed the price level well above its pre-pandemic path, reflecting the cumulative effects of the Fed’s delayed, asymmetric response.

⁶According to [Peneva et al. \(2025, p. 8, fn. 8\)](#), “A staff briefing at the December 2021 FOMC meeting (with the November CPI in hand) had flagged that the share of CPI categories with 12-month changes greater than 3 percent had surged in the fall. The briefing described inflation as ‘high, broad, and stubborn.’”

⁷A reluctance to accept that the inflation was largely demand driven may have also contributed to the delay. For example, [Peneva et al. \(2025, p. 9\)](#) note that the staff preparing the January 2022 Tealbook “still expected the pace of monthly price increases to slow as supply constraints eased but not as noticeably as before in light of the stubbornly slow progress on bottleneck resolutions.” Likewise, [Hajdini et al. \(2025\)](#) only acknowledge that “an array of economic indicators suggested that aggregate demand greatly exceeded the reduced productive capacity of the economy” by “early 2022.”

⁸When preparing the March 2022 Tealbook, Fed “staff members revised up the forecast for 2022 core PCE inflation by a full percentage point relative to their January projection,” a revision that “was very large by historical standards” ([Peneva et al., 2025, p. 10](#)).

Figure 1: Personal Consumption Expenditures Price Index and Median FOMC Member’s Implicit Price Level Projections



Notes: Implicit price level projections are based on the median FOMC member’s PCE inflation projections for the following years and the most recent month for which PCE data was available when the projections were made.

From this most recent experience, two conclusions can be drawn. First, while its level-targeting features have considerable theoretical appeal in alleviating the challenges posed by adverse demand shocks in combination with the the ELB, FAIT as outlined in the 2020 Revised Statement was very poorly designed. Its asymmetric make-up policy was not clearly communicated to the public and suffered from an inflationary bias that risked unanchoring inflation expectations from the stated target. Second, while the “balanced approach” to supply side shocks prescribed by the original 2012 Strategy Statement may have been too vague, abandoning reference to that approach appears to have been a further step in the wrong direction. A successful 2025 framework review would identify both of these problems and revise its consensus statement accordingly.

3 The Review Process

The Fed began its most recent framework review in January 2025. The actual review took place in a series of discussions held across five consecutive FOMC meetings. But these discussions were informed by—or, at least purported to be informed by—Fed research staff papers, Fed Listens events, and the Second Thomas Laubach Research Conference (Leduc et al., 2025). A list of events associated with the Fed’s 2025 framework review is included in Table 2.

As shown in Table 2, Fed officials divided the review into five components. At the January FOMC meeting, they discussed the 2019-2020 framework review, including the events leading up to that review and the resulting revisions to the framework, as well as related efforts at advanced economy central banks around the world. They discussed the employment mandate at the March FOMC meeting and the price stability mandate at the May FOMC meeting. At the June FOMC meeting, Fed officials discussed the risks and uncertainties of monetary policy, as well as how best to communicate monetary policy strategies to the public given those risks and uncertainties. Revisions to the framework were discussed at the July FOMC meeting, with the minutes noting participants “had made important progress toward revising the Committee’s Statement on Longer-Run Goals and Monetary Policy Strategy” and were “close to finalizing changes to the consensus statement and would do so in the near future” (Federal Open Market Committee, 2025c). The 2025 Statement of Longer-Run Goals and Monetary Policy Strategy (Federal Open Market Committee (2025a), hereafter “2025 Revised Statement”) was released in August following a notation vote.

The 2025 framework review was a substantial undertaking and, in many respects, the review process reflected careful design, effective organization, and genuine engagement. Nonetheless, we identify three significant shortcomings:

1. The scope precluded the adoption of potentially superior alternatives.
2. The schedule reduced the ability of those outside the Fed to influence the outcome.
3. The structure of some Fed Listens events limited the extent to which business leaders and

Table 2: The Federal Reserve’s 2025 Framework Review

Date	Event	Host	Location	FOMC Participants
January 28–29	FOMC Meeting Discussion: Background <i>Staff Papers:</i> – “The Origins, Structure, and Results of the Federal Reserve’s 2019–20 Review of Its Monetary Policy Framework” by Gourio et al. (2025) – “Reviews of Foreign Central Banks’ Monetary Policy Frameworks: Approaches, Issues, and Outcomes” by Gordon et al. (2025)	Board of Governors	Washington, DC	All
March 18–19	FOMC Meeting Discussion: Employment Mandate <i>Staff Papers:</i> – “Assessing Maximum Employment” by Forte et al. (2025) – “Labor Market Dynamics, Monetary Policy Tradeoffs, and a Shortfalls Approach to Pursuing Maximum Employment” by Bundick et al. (2025) Fed Listens: A conversation with Neel Kashkari at the Detroit Lakes Chamber Economic Summit	Board of Governors	Washington, DC	All
March 26	Fed Listens: Perspectives from St. Louis Fed Advisory Councils	Minneapolis St. Louis	Detroit Lakes, MN St. Louis, MO	Kashkari Musalem, Waller
April 23	FOMC Meeting Discussion: Price Stability Mandate	Board of Governors	Washington, DC	All Except Schmid
May 6–7	<i>Staff Papers:</i> – “Retrospective on the Federal Reserve Board Staff’s Inflation Forecast Errors since 2019” by Peneva et al. (2025) – “Inflation since the Pandemic: Lessons and Challenges” by Hajdini et al. (2025) – “Pandemic and War Inflation: Lessons from the International Experience” by Lipinska et al. (2025) – “Implications of Inflation Dynamics for Monetary Policy Strategies” by Chung et al. (2025)	Chicago Board of Governors	Chicago, IL Washington, DC	Goolsbee All*
May 9	Fed Listens: Perspectives from the Midwest	Chicago	Chicago, IL	Goolsbee
May 15–16	Second Thomas Laubach Research Conference <i>Presented Papers:</i> – “Assessing Maximum Employment: A Flow-Based Approach” by Eusepi & Sahin (2025) – “Inflation, Expectations and Monetary Policy: What Have We Learned and to What End?” by Cahoon & Gorodnichenko (2025) – “Lessons for the FOMC’s Monetary Policy Strategy” by Walsh (2025) – “Unconventional Policy Tools at the Fed: Lessons from Theory and Practice” by Teneyro & Wazzi (2025) – “FCHI-plot: Central Bank Communication Through Financial Conditions” by Caballero & Simsok (2025) – <i>Policymaker Panel: Central Bank Communications and Uncertainty</i>	Board of Governors	Washington, DC	All*
May 20	Fed Listens: A conversation with New England stakeholders	Boston	Keene, NH	Collins
May 21	Fed Listens: Small Towns and Rural Communities	Richmond	Roanoke, VA	Barkin, Bowman
June 3	Fed Listens: Roundtable with El Paso community leaders	Dallas	El Paso, TX	Logan
June 4	Fed Listens: Perspectives on Economic Vitality Across the Sixth District	Atlanta	Atlanta, GA	Bostic, Cook
June 17–18	FOMC Meeting Discussion: Risks, Uncertainties, and Communication <i>Staff Papers:</i> – “Accounting for Uncertainty and Risks in Monetary Policy” by Bauer et al. (2025) – “Monetary Policy, Uncertainty, and Communications” by Garga et al. (2025)	Board of Governors	Washington, DC	All
June 23	Fed Listens: Community & Business Roundtable	New York	Schenectady, NY	Kugler, Williams
June 24	Fed Listens: Trends in the Agricultural Economy	Kansas City	Omaha, NE	Barr, Schmid
June 27	Fed Listens: How Does Monetary Policy Affect the People You Know?	Cleveland	Cleveland, OH	Cook, Hammack
July 29–30	FOMC Meeting Discussion: Revisions	Board of Governors	Washington, DC	All Except Kugler
August 22	2025 Statement on Longer-Run Goals and Monetary Policy Strategy, Released	Board of Governors	Washington, DC	All

Notes: FOMC Meeting discussion topic and participation recorded from minutes. Host, location, and participation at Fed Listens events recorded from [Federal Reserve \(2025a\)](#). Staff papers discussed at FOMC meetings recorded from [Leduc et al. \(2025\)](#). Presentations at Second Thomas Laubach Research Conference taken from [Federal Reserve \(2025b\)](#).

* FOMC participation at Second Thomas Laubach Research Conference unconfirmed.

other community members could provide meaningful feedback.

We discuss each of these shortcomings in turn.

3.1 Scope of Review

The scope of the 2025 framework review is described succinctly in the January [Federal Open Market Committee \(2025b\)](#) meeting minutes:

This review is focused on two specific areas: the Committee’s Statement on Longer-Run Goals and Monetary Policy Strategy, which presents the Committee’s approach to the conduct of monetary policy, and the Committee’s policy communication practices. The Committee’s 2 percent longer-run inflation goal will be retained and is not a focus of the review.⁹

Although ([Powell, 2025b](#)) did not delineate the two specific areas of focus at the post-meeting press conference, he did note that the FOMC’s 2-percent inflation target “will be retained and will not be a focus of the review.”

It is understandable that Powell would want to emphasize the FOMC’s commitment to achieving 2 percent inflation. Although inflation had declined from its peak in June 2022, it remained well above target. Headline PCE inflation was 2.7 percent over 2024, while core PCE inflation was 3.0 percent. Moreover, as [Cutsinger & Luther \(2025\)](#) note, some economists outside the Fed had called for raising the inflation target.¹⁰ Absent a clear statement from Powell ruling out that prospect, inflation expectations might settle at some higher rate, making it more difficult for the Fed to bring inflation all the way back down to 2 percent.

Understandable though it may be, it is nonetheless important to recognize the tradeoff involved with the Fed’s decision to limit the scope of its 2025 framework review. By ruling out

⁹It is not clear who determined the scope of the framework review, but we suspect the FOMC unanimously supported the decision to preserve the 2-percent inflation target.

¹⁰[White \(2025, p. 1387\)](#) considers the arguments for raising the inflation target and concludes that they “are not compelling if our standard is the well-being of ordinary money-users.”

potential alternatives at the outset, the FOMC reduced its ability to address some of the shortcomings with the prior framework identified in Section 2. Indeed, the limited scope essentially reduced the Fed’s options to maintaining asymmetric FAIT, adopting symmetric FAIT, or returning to FIT. We maintain that these alternatives are inferior to nominal income level targeting and flexible price level targeting for reasons discussed below.

An ambitious Fed might have considered replacing its asymmetric FAIT with a nominal income level target, as proposed by [Hendrickson \(2025\)](#). Under a nominal income level target, the central bank adjusts the supply of money to offset changes in money demand, thereby ensuring that nominal income follows the targeted growth path. Like symmetric FAIT and FIT, a nominal income level target can achieve any desired longer-run rate of inflation. The central bank need only set the growth rate of its nominal income level target equal to the expected average real GDP growth rate plus its desired longer-run rate of inflation. Like asymmetric or symmetric FAIT, it also helps the central bank overcome the ELB problem by requiring temporarily faster nominal income growth following periods where nominal income falls below the target path. And, since this make-up policy is symmetric (like symmetric FAIT), a nominal income level target also reduces the variance of potential outcomes for the purchasing power of money and, hence, the cost of long term contracting relative to asymmetric FAIT and (especially) FIT regimes.¹¹

While similar in many respects, a nominal income level target boasts several advantages over FAIT and FIT regimes.¹² Under a nominal income level target, monetary policymakers need not determine whether observed macroeconomic fluctuation is demand- or supply-driven nor produce real-time estimates of the output gap. A nominal income level target automatically prevents the central bank from exacerbating supply shocks by design.¹³ Indeed, stabilization

¹¹In making this comparison, we assume the central bank evaluates the average rate of inflation over a sufficiently large number of periods under symmetric FAIT. We relax this assumption when comparing FAIT and a flexible price level target below.

¹²For a more complete consideration of the benefits, see: [Hendrickson \(2012\)](#); [Sumner \(2012, 2015\)](#); [Belongia & Ireland \(2015\)](#); [Garin et al. \(2016\)](#); [Beckworth \(2019\)](#); [Beckworth & Hendrickson \(2020\)](#); [Ireland \(2022\)](#); [Beckworth et al. \(2025\)](#).

¹³[Chung et al. \(2025, p. 4\)](#) note that “optimal monetary policy allows inflation to depart from the target in response to certain supply shocks or in cases when sectoral dynamics are relevant,” so long as “inflation

policy under a nominal income level target might be described as precisely “balanced” because it requires the central bank to stabilize an equally weighted average of inflation and real output growth. [Beckworth & Horan \(2024\)](#) call this the “two for one deal.” Finally, a nominal income level target promotes financial stability by more equitably distributing the windfall gains and losses that result from random total factor productivity growth ([Sheedy, 2014](#); [Selgin, 1997](#), pp. 41-48). Simply put: a nominal income level target would have appropriately reflected the lessons learned from the past while also allowing the Fed to respond effectively to the broader range of contingencies that may arise in the future.

The primary objection to a nominal income level target is that it would be difficult to communicate to the public. “Clear and transparent communication of policy intentions and of the rationale for policy decisions,” [Garga et al. \(2025, p. 3\)](#) write in a Fed staff paper prepared for the 2025 framework review, “helps enhance the public’s understanding and promotes confidence in the central bank.” This matters, as [Bauer et al. \(2025, p. 6\)](#) write in a separate Fed staff paper, because the “public’s understanding about the *policy reaction function* influences the transmission of monetary policy to the real economy.” If the public would struggle to understand how the Fed will react under a nominal income level target, it might be better served by some second-best but easier-to-understand rule.

We agree that it is important for the Fed to communicate its policy intentions clearly and that a given reaction function may perform worse if the public fails to understand it. But we reject the claim that a nominal income level target is more difficult to understand than the various inflation targets the Fed left on the table. As [Binder \(2020, p. 336\)](#) explains, “many people either do not know what inflation is or understand it very differently than central bankers do.” Survey evidence suggests “inflation expectations are really a proxy for [consumers’] beliefs about the general state of the economy—that is, consumers report higher inflation expectations when economic sentiment is poor.” Since a nominal income level targeting “implies counter-cyclical inflation by construction,” it is “consistent with consumers’ understanding of how the economy

expectations remain well anchored.” Such deviations are generally *possible* under FIT and symmetric FAIT, but they are *required* by a nominal income level target.

works” (p. 336). Moreover, by providing a “single, explicit, numerical target,” a nominal income level target “should make it easier for the public to verify whether the central bank is doing what it has promised to do” and “easier for the central bank to justify the policy stance at any point in time” (p. 337). In other words, Fed officials would likely find it *easier* to communicate effectively under a nominal income level target.

If the move to nominal income level targeting were deemed too ambitious, the Fed might have instead considered replacing its asymmetric FAIT with a flexible price level target. Under a price level target, the central bank adjusts the supply of money to ensure that the price level follows the targeted growth path. A flexible price level target might approximate a nominal income level target by permitting the price level to temporarily rise (fall) above (below) the targeted growth path in response to a negative (positive) supply shock. But, unlike a nominal income level target, it would not *require* the price level to reflect temporary changes in aggregate supply.

On first glance, a flexible price level target appears practically indistinguishable from symmetric FAIT. Whereas symmetric FAIT aims to achieve x percent inflation on average, a flexible price level target aims for the price level to grow along some x -percent growth path. The principle difference, in practice, is this: a price level target is less ambiguous. With symmetric FAIT, the central bank must determine how far to look back when evaluating the average rate of inflation. If it looks back just one period, then symmetric FAIT approximates FIT; the central bank lets bygones be bygones by ignoring historical misses more than one period in the past. If, in contrast, the number of periods exceeds some relevant threshold (determined, in part, by the speed with which the central bank makes up for past mistakes), symmetric FAIT approximates a flexible price level target. By committing to a given price level path, a flexible price level target removes the ambiguity in symmetric FAIT. A flexible price level target always makes up for past mistakes; it never lets bygones be bygones. Correspondingly, a flexible price level target tends to reduce the variance of potential outcomes for the purchasing power of money relative to FAIT and FIT regimes.

Our primary aim here is not to convince the reader that the Fed should have adopted a nominal income level target or flexible price level target (though we judge both outcomes preferable to the actual outcome). Rather, it is to convince the reader that these alternatives should *not* have been precluded at the outset. Powell could have assured market participants that any changes to the framework would very likely result in 2 percent inflation over time, even if that were not the explicit objective of the revised framework; and, perhaps more importantly, he could have clearly stated that the FOMC had no intention of raising the inflation target. It was, therefore, unnecessary to rule out a nominal income level target or price level target by committing to maintain a 2-percent inflation target at the outset.

By limiting the scope of the framework review to preclude potentially superior alternatives, the Fed did not only fail to consider those alternatives. It also failed to consider the remaining options in light of those alternatives. For example, discussions highlighting the desirable features of a nominal income level target might have led Fed officials to adopt a symmetric FAIT, on the grounds that it would realize many of the benefits of a nominal income level target without the anticipated communication challenges. Alas, we will never know whether such considerations would have made a difference because the potentially superior alternatives were precluded at the outset.

3.2 Schedule of Events

Recall that Fed Listens events and the Second Thomas Laubach Research Conference were intended to generate input from community members and economists outside the Fed. When solicited and collected appropriately, external input can serve as an important check on group think by exposing Fed officials to a wider range of views than they would otherwise encounter. Ideally, external input would be received *prior to* internal discussions. This would enable Fed officials to discuss the external views alongside the internal views and maximize the potential for external views to shape the outcome when warranted. Alas, that was not generally the case with the 2025 framework review.

As shown in Table 2, Fed officials received much of the input they solicited from community members and economists outside the Fed *after* important discussions about the framework had already taken place. The first two discussions occurred before *any* of the external-input events. Only two of the ten Fed Listens events were held prior to the third discussion. To state this another way: nearly all of the Fed Listens events and the Second Thomas Laubach Research Conference occurred *after* the Fed had discussed potential changes to the employment and price stability objectives. As such, it seems reasonable to conclude that the schedule limited the potential influence of external input, especially as it relates to revising the consensus statement.

The limited influence of external input can be seen in the Fed staff papers circulated prior to FOMC discussions. Only one of the ten Fed staff papers cites any of the six papers presented at the Second Thomas Laubach Research Conference. Moreover, the exception proves the rule: [Garga et al. \(2025\)](#), which cites [Bernanke \(2025\)](#), was discussed at the June 2025 FOMC meeting. That meeting was held a month *after* the conference. Had the conference taken place prior to the earlier FOMC discussions, the Fed staff could have incorporated or otherwise addressed the arguments and ideas put forward by those outside the Fed at the conference in the papers prepared for the meetings. Likewise, FOMC members could have more easily incorporated or otherwise addressed those arguments and ideas in their discussions. Alas, the timing of the conference inhibited such inclusions, reducing the ability of those outside the Fed to influence the outcome.

It is useful to contrast the Fed’s efforts to secure external input with the efforts to provide external input organized by other institutions. For example, the Brookings Institution hosted two events related to the Fed’s framework review. The first event, held in June 2024, was titled “An agenda for the Federal Reserve’s review of its monetary policy framework.” It featured papers by [Cieslak et al. \(2024\)](#) and [Kiley \(2024\)](#) and a panel with former Fed Vice Chair Donald Kohn, Michael McMahon, Christina Romer, and Brian Sack that was moderated by David Wessel.

The second event, held in conjunction with the Brookings Papers on Economic Activity (BPEA) fall conference, took place in September 2024. It featured papers from [English & Sack](#)

(2024), former Federal Reserve Bank of Chicago President [Evans \(2024\)](#), and [Romer & Romer \(2024\)](#). Conference drafts and slides were available online at the time. The conference was live-streamed and recordings of the presentations were released by early November 2024.

The American Institute for Economic Research (AIER) also hosted two events related to the Fed’s framework review. The first event, a workshop held at Florida Atlantic University in January 2024, featured papers by [Ireland \(2025\)](#), [Rouanet & Salter \(2025\)](#), [Binder \(2025\)](#), [Hogan \(2025\)](#), [Hetzl \(2025\)](#), [Orphanides \(2025\)](#), [Nelson \(2025\)](#), and [White \(2025\)](#). These papers, along with [Beckworth & Horan \(2025\)](#) and [Hendrickson \(2025\)](#), would later be published in a special issue of the *Southern Economic Journal* (SEJ) edited by [Cutsinger & Luther \(2025\)](#). All but two of these papers appeared in early-access view at the SEJ prior to the start of the Fed’s framework review in January 2025. The remaining two were released in February 2025, a month or more before the FOMC’s second discussion.

AIER’s second event, titled “Building a Better Fed Framework,” was held at George Washington University in December 2024. It featured presentations by David Beckworth, Carola Binder, Thomas Hogan, Evan Koenig, William Luther, Bill Nelson, Athanasios Orphanides, and George Selgin. Former Federal Reserve Bank of St. Louis President James Bullard delivered the opening address. Current Fed Governor Christopher Waller delivered the keynote. The event was open to the public. Waller’s address was live-streamed and recordings of all the presentations were released a few weeks later.

It seems clear that both institutions considered above aimed to host their events and disseminate their research papers *before* the Fed began its 2025 framework review. We were involved with AIER’s efforts and can attest to as much. We understood that, in order to have any influence on the FOMC’s discussions, we would need to present our arguments before those discussions took place. Correspondingly, it is difficult for us to understand why the Fed chose to hold its Second Thomas Laubach Research Conference and Fed Listens events after those discussions were already well underway. Doing so necessarily reduced the ability of those outside the Fed to influence the outcome.

Another aspect of the schedule also reduced the potential influence of external input, at least relative to the prior framework review. As [Gourio et al. \(2025, p. 11, fn. 32\)](#) note, there were fourteen Fed Listens events held during the 2019-2020 framework review: “Each Reserve Bank hosted a Fed Listens event, with at least one member of the Board of Governors as well as the President of the Reserve Bank attending, and the Board hosted two events.” As shown in [Table 2](#), there were only ten Fed Listens events held during the 2025 framework review, all of which were hosted by a regional Reserve Bank. Moreover, only six of these events had a member of the Board in attendance. Hence, we conclude that Fed Listens events played a diminished role during the 2025 framework review.

Of course, to note that the schedule reduced or limited the influence of external input is not to say that the external-input events played no meaningful role in the Fed’s framework review. However, we are unable to identify a single change in the 2025 Revised Statement that was not strongly foreshadowed in the minutes of the first three FOMC meetings. Certainly none of the revisions reflect a departure from the revisions suggested in those meeting minutes.

During the very first discussion, at the January [Federal Open Market Committee \(2025b\)](#) meeting, “participants assessed that it was important to consider potential revisions to the statement, with particular attention to some of the elements introduced in 2020.” Specifically, they “highlighted as areas of consideration the statement’s focus on the risks to the economy posed by the ELB, the approach of mitigating shortfalls from maximum employment, and the approach of aiming to achieve inflation moderately above 2 percent following periods of persistently below-target inflation.” At the March [Federal Open Market Committee \(2025d\)](#) meeting, participants “reflected on how both the Committee and the public have interpreted the current description of maximum employment as a broad-based and inclusive goal” and “indicated that they thought it would be appropriate to reconsider the shortfalls language.” At the May [Federal Open Market Committee \(2025e\)](#) meeting, they “discussed the advantages and disadvantages of flexible average inflation targeting, under which monetary policy seeks to make up for persistently below-objective inflation to achieve average inflation of 2 percent, and flexible

inflation targeting, under which policy seeks to return inflation to 2 percent without making up for previous deviations from target” and “indicated that they thought it would be appropriate to reconsider the average inflation-targeting language in the Statement on Longer-Run Goals and Monetary Policy Strategy.” In other words, FOMC members had identified *all* of the major changes that would be made in the 2025 Revised Statement during the first discussion and deemed those changes appropriate in the second and third discussions. We will review the changes in greater detail in Section 4.

The schedule of events associated with the 2025 framework review challenges the idea that the Fed was genuinely interested in external input. The Second Thomas Laubach Research Conference took place much later than similar efforts organized by other institutions, and after FOMC members appear to have settled on the major changes that would be made to the consensus statement. Fed Listens events took place later than would have been ideal, as well. They were also fewer in number and saw less participation from the Board than those held during the prior framework review. If nothing else, the schedule of events associated with the 2025 framework review left the Fed open to the charge that their process was merely performative.

3.3 Structure of Fed Listens

Fed Listens events are intended to solicit input from business leaders and other community members across the country. As the [Federal Reserve \(2025a, p. 1\)](#) explains, “the Board of Governors (Board) and the Reserve Banks regularly engage with various groups as part of their normal outreach efforts.” However, “the goal of Fed Listens discussions is different.” Specifically, FOMC members are supposed to use Fed Listens events to “engage directly with a range of individuals and groups on issues pertaining to the Federal Reserve’s dual-mandate goals and to gather feedback on approaches to communicating with the public about policy decisions and other considerations.” In other words, Fed Listens events are not intended to collect qualitative assessments of the economy, such as those presented in the Beige Book. Rather, they are

intended to generate meaningful feedback from the public related to the Fed’s framework.

A typical Fed Listens event features one or more panels of business and community leaders, who are asked to address a set of questions recorded in [Federal Reserve \(2025a\)](#). These events are usually live-streamed, with video recordings or written summaries made available to the public after the event. But there are, in fact, a wide range of formats—and some of these formats are more effective than others at achieving the stated goal. To illustrate the variance, we consider two extreme examples.

First, consider the Fed Listens event hosted in Detroit Lakes, MN by the Federal Reserve Bank of Minneapolis in March 2025. After a brief introduction, President Neel Kashkari conducted a short survey. Responses were collected from the audience and presented on screen in real time. The questions asked were as follows, with potential responses noted in brackets when so limited:

- Which of the following best describes you? [Employer, Worker, Student, Looking for work, Voluntary not working (but not retired), Retired]
- How optimistic or pessimistic are you about your economic outlook for 2025? [Fairly optimistic, Somewhat optimistic, Neutral, Somewhat pessimistic, Very pessimistic]
- What influences your outlook assessment for 2025?
- How has the number of job openings changed in the last 12 months? [Grown by a lot, Grown by a little, Remained mostly unchanged, Decreased by a little, Decreased by a lot]
- How do you expect prices to change in 2025 relative to 2024? [Increase by a lot, Increase some, Mostly unchanged, Decrease some, Decrease by a lot]

Note that responses for all but one of these questions are limited. None are open-ended questions, well-suited to starting a conversation. Moreover, they primarily gauge attendees’ qualitative assessments of the economy rather than generate meaningful feedback related to the Fed’s framework.

The survey portion of the event, which lasted around four minutes, was followed by an extended question and answer period. However, it did not generally feature Kashkari asking questions and listening to members of the community. Rather, members of the community asked questions and listened to Kashkari.¹⁴ This structure appears to have been intentional, and only changed when—seeing no further questions—Kashkari asked the audience whether his assessment, that the Detroit Lakes area is doing well but that there is some uncertainty, was correct. Following a show of hands, he asked if there were any other economic challenges that the region was experiencing. Kashkari’s question prompted around five minutes of feedback about local economic conditions, but nothing obviously related to the Fed’s framework review.

Next, consider the Fed Listens event hosted by the Federal Reserve Bank of Cleveland, which took place on the second morning of its biennial Policy Summit in June 2025. The Policy Summit is a community development conference that brings together policymakers and practitioners from across the U.S. to consider the challenges low- and moderate-income communities face. By bundling its Fed Listens event with the Policy Summit, the Federal Reserve Bank of Cleveland was able to ensure it would be “consulting with a broad range of stakeholders”—an explicit objective identified by the [Federal Reserve \(2025a\)](#).

The structure of the Federal Reserve Bank of Cleveland event differed significantly from that of the Federal Reserve Bank of Minneapolis. After brief introductory remarks from President Beth Hammack and Governor Lisa Cook, the moderator explained how the session would be conducted. The moderator shared three questions (presented below) and instructed each table to discuss these questions among themselves for roughly thirty minutes. Each table was also told to select a note taker, who would summarize their discussion, and a reporter, who would share the highlights with the larger group. Virtual attendees were instructed to submit questions

¹⁴During the event, it was noted that Kashkari had met with around fifteen business leaders the night before to “really understand the climate” in Detroit Lakes. Although it is possible the Federal Reserve Bank of Minneapolis considered this private meeting a part of the Fed Listens event, it did not advertise it as such. The private meeting does not appear to have been live-streamed and the Federal Reserve Bank of Minneapolis does not appear to have made a recording or written summary available to the public. Moreover, the brief description of this private meeting makes it difficult to see how it was any different from the usual interactions Fed presidents have with business leaders in their district.

via chat or e-mail, and Fed staffers were on hand to relay remote contributions to those in the room. Following the table discussions, nineteen reporters (including one Fed staffer representing virtual attendees) shared their highlights with the room and, in some cases, fielded follow-up questions from Hammack and Cook. This latter portion of the event lasted approximately forty minutes. Finally, Hammack identified some of the key takeaways from the discussion and all of the notepads were collected by Fed staff to be compiled into a summary report.

The three questions addressed at the Cleveland Fed event were as follows:

- How are people in your community generally feeling about the labor market? For people looking for work, how confident are they in their ability to secure a job?
- How has inflation affected the low- and moderate-income communities you know and/or serve? How are households, businesses, and communities responding to the higher prices of important items?
- How would you assess the Federal Reserve’s communications with the public? Do you have any advice on how we can better communicate with you and the communities you serve?

These questions were taken almost word-for-word from those suggested by the [Federal Reserve \(2025a\)](#). Although the first two questions risked diverting attention to current economic conditions, all were open-ended and intended to generate conversations related to the Fed’s framework.

The Federal Reserve Bank of Cleveland’s approach has several advantages. For starters, it was primarily focused on securing feedback from business leaders and other community members rather than delivering information to attendees. Moreover, it did not limit that feedback to a few select participants, as the typical panel structure would, or to those willing to speak in front of a large audience, as a typical town hall structure would. All attendees were able to participate in the table discussions and the information shared at tables was recorded and

reported. That approach enabled the Federal Reserve Bank of Cleveland to secure a lot of feedback from a large, diverse group of participants.

Alas, the Federal Reserve Bank of Cleveland’s approach was unusual.¹⁵ Perhaps for that reason, along with the public’s poor understanding of monetary policy, we find very little meaningful feedback related to the Fed’s framework secured through Fed Listens events. “When asked about how the Federal Reserve should think about its monetary policy framework,” the [Federal Reserve \(2025a\)](#) reports, “many panelists gravitated to the fiscal and trade policy concerns that they see as directly affecting their operations but that are the purview of elected officials, not the Federal Reserve.” The most useful takeaway, in our view, is that the Fed should be “less arcane and more approachable” when it communicates with the public. Adopting the Federal Reserve Bank of Cleveland’s structure for future Fed Listens events would be a step in the right direction.

4 The Revised Framework

Whatever the merits of the Fed’s 2020 framework, it failed to deliver price stability. The Fed, therefore, had an opportunity to improve its framework with the 2025 revisions. Seizing that opportunity would require addressing the two problems identified in [Section 2](#): the asymmetric make-up policy and potentially-unbalanced approach. In this section, we review the changes made to the Fed’s inflation objective, employment objective, and strategic approach to achieving both.

Broadly speaking, the 2025 Revised Statement is a mixed bag. The FOMC removed the explicit asymmetry introduced in its 2020 Revised Statement. But it did so by eliminating the explicit make-up policy for below-target inflation rather than making FAIT symmetric; leaving ambiguous whether the new FIT is symmetric; and leaving ambiguous whether the FOMC

¹⁵The Federal Reserve Bank of Boston also appears to have taken a table talk approach, with opening remarks by Fed President Susan Collins followed by concurrent group discussions led by Boston Fed Director of Research Egon Zakrajšek, principal economist and policy advisor Chris Foote, and Research Vice President and economist Daniel Cooper ([Blanco, 2025](#)).

would be concerned with deviations or shortfalls from maximum employment. Likewise, the FOMC ostensibly restored the balanced approach to achieving the inflation and employment objectives, while introducing new language that suggests it might place less weight on the employment objective when it believes doing so will not adversely affect inflation. On the whole, we conclude that the 2025 Revised Statement is an improvement on the 2020 Revised Statement, but continues to fall short of the original 2012 Strategy Statement and 2016 Revised Statement in important respects.

4.1 Inflation Objective

The most notable change to the Fed’s consensus statement resulting from the 2025 framework review relates to the inflation objective. Under its prior framework, the [Federal Open Market Committee \(2020\)](#) judged that “appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time” when “inflation has been running persistently below 2 percent.” No more. Now, the [Federal Open Market Committee \(2025a\)](#) merely “judges that longer-term inflation expectations that are well anchored at 2 percent” is consistent with its mandate and vows “to act forcefully to ensure that longer-term inflation expectations remain well anchored.” The FOMC, therefore, has removed its explicit commitment to make up for below-target inflation. But it has not explicitly stated that it would target inflation symmetrically. It has, in other words, moved from asymmetric FAIT to potentially-symmetric FIT.

Two questions naturally arise with respect to the FOMC’s revised inflation objective. Why did the FOMC abandon asymmetric FAIT? And, given that decision, why did the FOMC opt for FIT instead of symmetric FAIT? Although we cannot give a definitive answer to either question, we offer some speculation based on Fed staff papers prepared for the 2025 framework review and statements from Powell made during the review process and shortly after the revised framework was released.

Interestingly, the FOMC’s decision to abandon the asymmetric FAIT appears *not* to have resulted from a recognition that monetary policy is primarily to blame for the high inflation

beginning in 2021 and that its prior framework contributed to the monetary policy errors in that episode. [Peneva et al. \(2025, p. 19\)](#) summarize the Board staff’s position:

With the benefit of hindsight, the Board staff think that the pandemic led to large and persistent reductions in supply across broad swaths of the economy, which, combined with the surge in demand generated by the rapid reopening of the economy amid large fiscal and monetary support, resulted in excess demand in a number of sectors; inflation then gradually subsided as these supply–demand imbalances unwound.

Although [Peneva et al. \(2025, p. 21\)](#) acknowledge the “broad-based agreement that both supply and demand shocks contributed to inflation during the pandemic,” they claim:

[...] there is no agreement about the exact extent to which shocks to labor supply, fiscal policy, monetary policy, the shift toward goods consumption, global supply chains, and other factors played a role in the inflation swings. Thus, there remains great uncertainty about an exact accounting of the various contributors to the pandemic-period inflation, and analysis that either attributes all or most of the inflation to any single factor or that expresses great confidence in quantitative estimates of their contributions seems too bold.

Monetary policy, according to the Fed staff, was just one of many factors—and potentially a bit player, at that.

The many-factors view is repeated in other Fed staff papers prepared for the 2025 framework review. Consider [Hajdini et al. \(2025, p.2\)](#), for example:

High inflation reflected the interaction of large and persistent shifts in supply and demand across the U.S. economy. These shifts were driven by the pandemic itself, as well as stabilization efforts, including strong fiscal stimulus and accommodative monetary policy. The resulting imbalances were amplified by capacity constraints, which limited the ability of supply to increase—often referred to as a nonlinearity.

Hajdini et al. (2025, p.6) also claim “there remains no consensus on the relative importance” of “the contributions of demand and supply to the inflation surge,” despite an “active line of research” trying to sort it out.

Powell’s (2025a, p.8) account of the recent inflation, as delivered in Jackson Hole with the release of the 2025 Revised Statement, appears to go even further:

In the event, rather than low inflation and the ELB, the post-pandemic reopening brought the highest inflation in 40 years to economies around the world. Like most other central banks and private-sector analysts, through year-end 2021 we thought that inflation would subside quickly without a sharp tightening in our policy stance. When it became clear that this was not the case, we responded forcefully, raising our policy rate by 5.25 percentage points over 16 months. That action, combined with the unwinding of pandemic supply disruptions, contributed to inflation moving much closer to our target without the painful rise in unemployment that has accompanied previous efforts to counter high inflation.

Thus, in Powell’s telling, the inflationary episode was due to the pandemic reopening—not monetary policy.¹⁶ Nor is there any acknowledgment of the FOMC’s slow response. To the contrary, Powell gives the FOMC credit for tightening monetary policy to bring down inflation when it became clear that inflation would not subside on its own. Would that it were the case.

Having downplayed the role of monetary policy errors in contributing to the recent inflationary episode, it is perhaps not surprising that Fed staff and FOMC members do not generally conclude that the prior framework was a contributing factor. For example, Chung et al. (2025, p. 5) claims “the historical record since” the adoption of asymmetric FAIT in August 2020 “has not been particularly informative about the relative performance of FIT versus FAIT because the economy has been far from the ELB for most of this time and inflation has generally been above target.” Hajdini et al. (2025, p. 18) go further, suggesting the FOMC’s 2020 framework

¹⁶Along these lines, Chung et al. (2025, p. 13) note that the recent “experience has brought renewed attention to the risks and challenges posed by supply shocks and sectoral dynamics.”

performed well:

Our reading of the evidence suggests that the inflation target was effective during the recent inflation surge by promoting stability in longer-term inflation expectations. Despite large increases in shorter-term inflation expectations, longer-term inflation expectations remained generally well-anchored. The stability in longer-term inflation expectations, in turn, likely helped to contain the inflation surge and helped inflation to return toward the 2 percent target without a large increase in unemployment.

It is noteworthy that keeping longer-term inflation expectations well-anchored at 2 percent appears to be the primary inflation objective in the 2025 Revised Statement.

Powell has also claimed that the 2020 framework performed well. At the post-meeting press conference in January 2025, he was asked whether the FOMC's prior framework had prevented the FOMC from preemptively raising its policy rate to head off inflation. His response was unequivocal:

We didn't—you know, we, we—what we said was that, you know, in—at times when inflation persistently undershot 2 percent, we, we would likely allow inflation to run moderately above 2 percent for some time. That's what we said. That was—turned out not to be relevant to what actually happened. There was nothing moderate about the overshoot. It was—it was an exogenous event. It was the pandemic, and it happened, and, you know, our framework permitted us to act quite vigorously, and we did once we decided that that's what we should do. Our framework had really nothing to do with the decision to—we, we looked at the inflation as, as transitory, and—right up to the point where the data turned against that, and when the data turned against that in late '21, we changed our, our view, and we raised rates a lot, and here we are at 4.1 percent unemployment and inflation way down. But the framework was, was more irrelevant than anything else. The, the, that part

of it—that part of it was irrelevant. The rest of the framework worked just fine as, as we used it, as it supported what we did to bring inflation down (Powell, 2025b).

Once again, Powell tells us the inflationary episode was not due to monetary policy, but also that the framework did not prevent the Fed from doing what needed to be done. Indeed, the various components of the framework were either “irrelevant” or “worked just fine.”

Powell’s account in January 2025 sits awkwardly with the fact that the FOMC would review and revise its framework over the months that followed. If the framework—and the asymmetric FAIT component, in particular—worked so well, why did the FOMC revise it?

One reason, offered by Powell (2025a, p. 9) at Jackson Hole, is that asymmetric FAIT was difficult to communicate to the public:

During the review, we discussed how the 2020 statement’s focus on the ELB may have complicated communications about our response to high inflation. We concluded that the emphasis on an overly specific set of economic conditions may have led to some confusion, and, as a result, we made several important changes to the consensus statement to reflect that insight.

The prior framework was not flawed, in other words. It was merely confusing.

Given that the FOMC decided to abandon its asymmetric FAIT, why did it opt for FIT instead of symmetric FAIT? Three factors stand out: diminished concerns about the ELB, communication challenges associated with an explicit make-up policy, and confidence in the ability to mitigate the lack of an explicit make-up policy should interest rates return to the ELB. We discuss each in turn.

Recall that the FOMC’s decision to adopt asymmetric FAIT in 2020 was primarily driven by concerns about the ELB. Judging by staff papers prepared for the 2025 framework review, those concerns appear to have diminished in the time since. “While we acknowledge that the ELB may yet remain a concern relative to previous decades when the neutral level of the funds rate was thought to be much higher,” Hajdini et al. (2025, p. 24) write, “on the margin ELB risk appears

to have declined somewhat since 2019.” They attribute this to the “greater upside inflation risks,” which “stem from a plausibly higher perceived likelihood of abrupt increases in inflation due to large shocks, disruptions to critical inputs, and nonlinearities; the potentially greater salience of inflation in the wake of the pandemic and its effects on inflation expectations; and the possibility that the neutral rate has moved higher since immediately before the pandemic.” As [Chung et al. \(2025, p. 18\)](#) explain, the expected benefits of FAIT are reduced if “the future balance of risks is more like the past five years, with a higher incidence of inflationary shocks,” or there is a “possibility of a higher long-run natural rate of interest.” Moreover, since a symmetric FAIT would require making up for above-target inflation as well, and FOMC members see little reason to do that, the perceived reduction in ELB risk favored FIT over symmetric FAIT.

Although symmetric FAIT is probably easier to explain to the public than asymmetric FAIT, it nonetheless requires FOMC members communicate a make-up policy to the public, which they have struggled to do under the prior framework. As [Chung et al. \(2025, p. 11\)](#) explain, “FAIT is a more complex policy than FIT, and although describing the desired policy in a particular scenario is straightforward, communicating how the policy would work out under a variety of scenarios that may materialize over the implementation horizon is more challenging.” That challenge matters because the benefits of a framework depend crucially on the public’s understanding of the reaction function. “Although policymakers can provide information about its reaction function,” [Bauer et al. \(2025, p. 6\)](#) write, “the public’s perception of the reaction function can vary over time,” creating “additional uncertainty about monetary policy transmission.” Hence, FOMC members must take the potential communication challenges into account when evaluating alternative frameworks, and the perceived communication challenges associated with an explicit make-up policy would seem to favor FIT over symmetric FAIT.

The third factor favoring FIT over symmetric FAIT is the belief, promoted in Fed staff papers, that the FOMC might mitigate the lack of explicit make-up policy should interest rates return to the ELB. “Some of the shortcomings of FIT at the ELB,” [Chung et al. \(2025, p. 3\)](#) write, “can be addressed with modifications that provide additional accommodation when the

ELB binds.” For example, they note that the FOMC might specify “threshold conditions on economic outcomes that must be met before lifting rates off the ELB, delaying exit beyond what would naturally be called for by the Taylor rule and thus providing a ‘lower for longer’ policy when the ELB binds” (p. 9). A thresholds approach, they write, “may be able to effectively address the weaknesses of FIT at the ELB, if exit from the ELB is delayed sufficiently beyond what would be called for by FIT alone” (p. 9).

The potential for the FOMC to use a thresholds approach raises an important question about the symmetry of FIT in the 2025 Revised Statement. Recall that the FOMC committed to an explicitly symmetric FIT in its 2016 Revised Statement. Although the FOMC is no longer committed to the asymmetric make-up policy it adopted in 2020, its 2025 Revised Statement does not explicitly state that it will target inflation symmetrically. That omission is noteworthy, both because of the FOMC’s prior explicit commitment to symmetric FIT and its ongoing (albeit diminished) concern about the ELB. Given the ambiguity, in this respect and others discussed below, we are reluctant to conclude that the FOMC’s recent changes mark a return to its pre-2020 framework. We are more comfortable concluding that it has adopted a potentially-symmetric FIT.

The primary advantage of FIT, at least from the FOMC’s perspective, appears to be that it preserves a high degree of optionality. Under the revised framework, the Committee is no longer committed to pursuing an explicit make-up strategy following periods of below-target inflation and, hence, need not communicate a make-up strategy to the public. At the same time, the revised framework does not preclude the use of make-up policy or other “lower for longer” modifications in the moment, so long as those efforts can be justified in the moment on the grounds that they are necessary to anchor long-term inflation expectations or to promote maximum employment. The revised inflation target, therefore, affords the FOMC much latitude to use its discretion, with FIT functioning more as a broad policy goal rather than a narrow commitment to price stability.

Although the FOMC might view the aforementioned optionality as an advantage, it is also

a significant drawback of the revised framework. As [Chung et al. \(2025\)](#), pp. 3–4) explain:

Fully realizing the benefits of either FAIT or modifications of FIT requires that the public views the strategies as credible and adequately understands their implications. Achieving these prerequisites may be challenging in practice. Incomplete descriptions of these strategies may have the advantage of retaining flexibility, maintaining credibility, and simplifying communications. However, incomplete descriptions may also be less effective at shaping public expectations, reducing the effectiveness of the policies.”

Flexibility is purchased at the cost of reduced clarity, potentially reducing the effectiveness of the FOMC’s efforts relative to what it would have been had the FOMC committed to those efforts in advance.

4.2 Employment Objective

The 2025 framework review also resulted in significant changes to the FOMC’s employment objective. Whereas it had not previously defined maximum employment, the [Federal Open Market Committee \(2025a\)](#) now states that maximum employment is “the highest level of employment that can be achieved on a sustained basis in a context of price stability.” It has also removed the prior shortfalls language, now indicating that “policy decisions must be informed by assessments of the maximum level of employment.” Both changes are commendable, in our view, but do not go far enough. Specifically, we would have preferred the FOMC clearly state that its policy decisions would be informed by assessments of the *deviations* of employment from its maximum level, as it had done in the original 2012 Strategy Statement.

The definition of maximum employment included in the 2025 Revised Statement appears to have been put forward and supported by the Board Staff. In a paper prepared for the framework review, [Foote et al. \(2025\)](#) offer two definitions. The first, known as the “long-run unemployment rate (LRU),” denotes “the unemployment rate that is expected to prevail after the economy has

fully adjusted to business cycle shocks” and “evolves with the changing structure and dynamics of the labor market, including demographics, industrial and occupational structure, educational attainment, and longer-run trends among subgroups of the population. These factors are largely nonmonetary in nature” (p. 3). The second, known as the “stable-price unemployment rate (SPU),” denotes “the highest level of employment that the economy can sustain while maintaining inflation in line with the FOMC’s 2 percent inflation target” (p. 3). Citing [López-Salido et al. \(2024\)](#), [Foote et al. \(2025, p. 4, fn. 4\)](#) note “that successive Federal Reserve leaderships from the 1950s onward have viewed the maximum employment goal of the dual mandate as referring to a sustainable maximum level that is consistent with price stability.” Moreover, since the “SPU encompasses consistency with both price stability and longer-run structural changes in the labor market,” they described it as “a helpful concept for Committee discussions” (p. 4). Given the explicit inclusion of the SPU in the 2025 Revised Statement, it is safe to conclude the FOMC agreed.

In deciding to remove the prior shortfalls language from the consensus statement, FOMC members may have come to believe that the labor market overheated in late 2021—and that they would have been better off had they taken a more symmetric approach. Along these lines, [Foote et al. \(2025, pp. 19-20\)](#) offer the following retrospective:

In the second half of 2021, the unemployment rate fell sharply, from 5.9 percent in June to 3.9 percent in December. Vacancies, however, were relatively stable. These movements are consistent with a reduction in labor market frictions toward more-normal levels, which shifted the Beveridge curve back toward its pre-pandemic position. This movement coincided with continued increases in labor demand that rotated the V/U ratio up. A leftward Beveridge curve shift and a higher V/U ratio both tend to reduce unemployment, which explains the 2-percentage-point drop during the last half of 2021. Because the V/U ratio was rising, this unemployment decline was larger than the drop in the SPU, so both the V/U ratio and the unemployment gap were signaling that the labor market was moving past maximum

sustainable employment in late 2021.

If FOMC members accept this characterization of the period, the removal of the prior shortfalls language may reflect a renewed focus on the cyclical state of the labor market rather than limiting attention to occasions when employment is cyclically low.

At the same time, there are reasons to think the FOMC has not completely abandoned the shortfalls approach. For one, Fed staff papers prepared for the framework review continue to describe the shortfalls approach as an effective way to counter the ELB problem. “Under their baseline calibrations,” [Bundick et al. \(2025, p. 7\)](#) write, “all cited studies find that the increase in average inflation under a shortfalls approach can be sufficient to offset downward pressures on inflation stemming from the proximity of interest rates to the ELB.” They maintain that “a shortfalls approach reduces the frequency and severity of ELB episodes relative to a deviations approach” (p. 7).

Fed staff papers also highlight the usefulness of the shortfalls approach in the absence of an explicit make-up strategy. For example, [Chung et al. \(2025, pp. 10–11\)](#) discuss the potential to modify FIT with a shortfalls approach:

The relative costs and benefits of the two strategies, FIT and FAIT, also depend on the degree to which policy responds asymmetrically to economic activity. As discussed in [Bundick, Cairó and Petrosky-Nadeau \(2025\)](#), a rule that does not respond to positive output gaps or to unemployment below the unemployment rate consistent with maximum employment (a “shortfalls” approach) could result in a higher average inflation rate than a similar rule that has a symmetric response. A shortfalls approach may therefore partly substitute for FAIT as a strategy for supporting average inflation against downside risks. Furthermore, such an asymmetric approach may imply a more gradual tightening path after exiting the ELB, helping to provide additional accommodation when the ELB is binding.

In their view, the shortfalls approach can help mitigate the supposed shortcomings of FIT at the ELB. This is especially relevant given the FOMC’s move from FAIT to FIT.

Finally, Fed staff papers explain how the FOMC might deal with the adverse inflationary effects of a shortfalls approach. “Studies suggest that monetary policy can offset higher-than-desired average inflation under a shortfalls approach,” [Bundick et al. \(2025, p. 10\)](#) note, “by leaning more strongly against deviations of inflation from the 2 percent objective, keeping longer-term inflation expectations well anchored.” [Garga et al. \(2025\)](#) similarly write that “monetary policy should give greater weight to the possible states in which longer-term inflation expectations may become unanchored, because although a state with unanchored inflation expectations might not be very likely, losses incurred in that state are high.” This approach is consistent with the 2025 Revised Statement, which now indicates that the [Federal Open Market Committee \(2025a\)](#) “is prepared to act forcefully to ensure that longer-term inflation expectations remain well anchored.” Crucially, [Bundick et al. \(2025, p. 10\)](#) maintain that this lean-against-inflation modification does not eliminate the benefits of a shortfalls approach: “under benchmark calibrations, ELB episodes are still less frequent under a shortfalls rule if policymakers respond more aggressively to inflation deviations.”

It is unclear how to resolve the ambiguity related to the FOMC’s employment objective. It is certainly possible that, by removing the shortfalls language, the FOMC intended to signal a return to a symmetric approach, whereby it will respond to deviations from maximum employment. But the FOMC did not explicitly state that it will respond to deviations from maximum employment, as it had in the earlier 2012 Strategy Statement. It is also possible (and perhaps likely in light of Fed staff papers surveyed herein) that the FOMC has not fully abandoned its shortfalls approach but has merely become less explicit about its intentions. As with opting for FIT over symmetric FAIT, the ambiguity surrounding the FOMC’s employment objective would seem to preserve a high degree of optionality.

To their credit, the Fed staff generally acknowledged the problem with preserving optionality through ambiguity. As [Chung et al. \(2025, p. 11, fn. 17\)](#) explain, monetary policy “simulations assume that financial market participants form model-consistent expectations, which are then reflected in asset prices.” [Bundick et al. \(2025, p. 12\)](#) similarly note that “the model-based

research [...] assumes households and firms fully understand the entire structure of the economy and the monetary policy reaction function. Relaxing some of these assumptions could have implications on the strength of the indirect effect from adopting a shortfalls approach because the indirect effect relies on household and firm expectations about future policy.” Furthermore, [Bauer et al. \(2025\)](#) write that, among the “many sources of uncertainty, the formation and the measurement of the public’s expectations stand out as particularly important for monetary policy decisions.” If the FOMC’s reaction function is ambiguous, the public will find it more difficult to anticipate how monetary policy will respond in various situations and the FOMC will find it more difficult to anticipate how the public will respond to monetary policy. This, in turn, may reduce the effectiveness of exercising the monetary policy option.

Although Fed staff generally acknowledge the problem of preserving optionality through ambiguity, they stop short of advising against that approach. Indeed, some Fed staff suggest there is tradeoff between being explicit and maintaining flexibility. [Garga et al. \(2025, p. 3\)](#) offers the clearest statement:

A robust policy strategy needs to trade off being systematic with being flexible. The commitment to achieving clear objectives via a strategy that is predictable and well understood by the public fosters credibility, which in turn imparts greater influence on expectations of future policy and outcomes, improving policy transmission. There are consequently major benefits to monetary policy that is systematic. However, flexibility is also important. Uncertain economic developments call for policy to be flexible enough to respond to unusual movements in economic conditions and a broad range of scenarios.

Indeed, [Garga et al. \(2025, p. 6\)](#) suggest an explicit strategy that removes all optionality is undesirable since “there is no single simple rule that delivers low expected losses in all settings.”

4.3 Weighing Objectives

Lastly, we consider changes made to the Fed’s consensus statement related to how much weight it puts on the inflation and employment objectives. Some details are small, but possibly revealing. First, whereas the original 2012 Statement sets the 2 percent inflation target before discussing the goal of maximum employment, the 2025 Revised Statement follows the 2020 Revised Statement by reversing the order: placing maximum employment first. Second and related, while the 2025 Statement acknowledges that price stability “supports the well-being of all Americans,” it also asserts that maximum employment “fosters broad-based economic opportunities *and* benefits for all Americans” (emphasis added). Thus, the 2025 Revised Statement appears to consistently elevate the Fed’s objectives for employment above those for inflation in ways similar to, though more subtle than, the 2020 Revision did

Recall also that, in the 2020 Revised Statement, the [Federal Open Market Committee \(2020\)](#) dropped reference to the “balanced approach” to policymaking in circumstances where its inflation and employment objectives are not complementary. The FOMC reinserted those two words in its 2025 Revised Statement. However, the [Federal Open Market Committee \(2025a\)](#) also included a new line, which states that the “Committee recognizes that employment may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability.” This inclusion suggests the FOMC might place less weight on the employment objective when it believes doing so will not undermine its efforts to achieve the inflation objective.

Why did the FOMC choose to clarify that employment may at times run above real-time assessments of maximum employment when discussing its balanced approach? It had already noted that “assessments of the maximum level of employment [...] are necessarily uncertain and subject to revision” in the employment objective paragraph discussed above. Moreover, the FOMC did not feel compelled to indicate that employment may at times run *below* real-time assessments of maximum employment. Nor did it say that *inflation* may at times run above or below real-time assessments of underlying inflation.

Our reading of the inclusion is that the FOMC has not entirely abandoned its shortfalls approach and, hence, has not fully returned to the balanced approach envisioned prior to 2020. It still generally views the inflation and employment objectives as complementary. But, if the objectives appear to conflict, the FOMC is only committed to respond in a balanced way when employment appears to be too low. If employment appears to be too high (i.e., relative to real-time assessments of maximum employment), the FOMC might put more weight on its inflation objective. Our reading is supported by [Powell \(2025a\)](#), which describes the new “at times” language as stating “more precisely” the idea behind the old “shortfalls” approach. Our reading is also supported by the surrounding text of the 2025 Revised Statement, which indicates the [Federal Open Market Committee \(2025a\)](#) will take “into account the extent of departures from its goals and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.” Recall that the 2012 Strategy Statement indicated the FOMC would take “into account the magnitude of the deviations,” whereas the 2020 Revised Statement indicated it would take “into account the employment short-falls and inflation deviations.” By indicating it would consider “the extent of departures from its goals” without clearly specifying what those goals are, the FOMC has left open the possibility that it will pursue a shortfalls approach. It has preserved some optionality, which it might choose to exercise.

Of course, it is possible that we have misunderstood the FOMC’s inclusion. If that is the case, we attribute our misunderstanding to ambiguities in the 2025 Revised Statement. The FOMC could have omitted the clarification that employment may at times run above real-time assessments of maximum employment. It could have clearly stated that it would take into account the extent of the *deviations* in employment from maximum employment and inflation from target. In failing to do either of these things, however, the FOMC has left readers like us to speculate about its actual intentions. That approach may provide the FOMC with additional flexibility, but it is not an effective communication strategy.

5 Conclusion

The Fed's 2025 monetary policy framework review was intended to reassess the strategy adopted in 2020 and incorporate lessons from the inflationary episode that followed. At the outset of the review, Chair Powell emphasized that the FOMC would be open to new ideas and critical feedback while taking stock of the experience of the past several years. We have evaluated the review in light of those goals. In doing so, we have considered whether the review process encouraged the discovery of new ideas and critical feedback and whether the revisions to the Fed's monetary policy framework addressed the shortcomings revealed by the recent experience.

We find that the review process could have done a lot more to encourage the discovery of new ideas and critical feedback. Although the Fed organized a substantial set of activities, including Fed staff papers, FOMC discussions, Fed Listens events, and an academic conference, the effectiveness of these activities was limited in three respects. First, the scope of the review was unnecessarily restricted at the outset, precluding the adoption of potentially superior alternatives like nominal income level targeting or flexible price level targeting. Second, the schedule reduced the ability of those outside the Fed to influence the outcome, since many of the events soliciting external input occurred only after key discussions within the FOMC had already taken place. Third, some of the events were not well-suited for generating meaningful feedback from business leaders and other community members. For these reasons, we conclude that the review process did not generally encourage the discovery of new ideas and critical feedback.

We also find that the revisions to the Fed's monetary policy framework inadequately addressed the realized shortcomings of the prior approach. The FOMC abandoned asymmetric FAIT, which delayed its response in 2021 and thereby contributed to the high inflation that followed. But, rather than making its FAIT symmetric, the FOMC adopted a potentially-symmetric FIT. Since FIT lacks an explicit make-up policy, it does not anchor the long run purchasing power of money and reduce the cost of long term contracting as effectively as symmetric FAIT. Furthermore, the 2025 Revised Statement enables the FOMC to modify FIT with thresholds or a shortfalls approach to maximum employment, effectively preserving much of the asymmetry

that plagued the previous framework. Even if these options are not exercised, they make it more difficult for FOMC members to communicate their intentions to the public and more difficult for the public to understand the Fed’s reaction function.

Framework reviews provide central banks with a rare opportunity to reassess the principles guiding policy, reflect on recent experience, and incorporate new research. To serve this purpose effectively, however, such reviews must be genuinely open to reconsidering established approaches. To this end, we offer three suggestions to improve future framework reviews. First, policymakers should avoid constraining the set of alternatives under consideration at the outset in order to encourage a broader debate about the merits of competing strategies. Second, external input should be solicited earlier in the process so that ideas generated outside the institution can inform internal deliberations. Finally, outreach efforts should be structured to prioritize meaningful feedback on the framework from diverse participants, with the Federal Reserve Bank of Cleveland’s approach serving as a potential model. Failing to adopt these best practices risks reinforcing existing institutional thinking rather than encouraging the discovery of new ideas and critical feedback. It also leaves the Fed open to the criticism that its framework review is merely performative. Ensuring that future reviews fully embrace a spirit of institutional learning will not only help produce a better framework, but will also promote institutional credibility and confidence in the Fed’s monetary policy strategy.

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