
President's Message

How do policymakers make informed judgments about the direction of monetary policy? How important are the costs of inflation to a typical member of society? Can a policy of lower inflation be expected to enhance the long-run rate of economic growth? If so, how big is that effect? How do the answers to these questions change when we consider interactions between countries? And what general gains might be expected if policymakers adopted certain rules for the implementation of monetary policy, instead of continuing with current discretionary practices?

As attendees of our Twentieth Annual Economic Policy Conference, "Price Stability and Economic Growth," can attest, these questions are difficult, if not impossible, to answer convincingly. The papers presented at the conference, which make up this issue of *Review*, reflect the vigorous discussion and variety of perspectives shared.

Since I have been president of this Bank, about 10 years, I have spent many hours deliberating, discussing and arguing about the direction of monetary policy. It is my experience that FOMC members make decisions mainly based on their core beliefs about the effects of monetary policy both in the short and the long run. These core beliefs are obtained essentially by talking with economists—either directly or through books, media, friends and colleagues. And economists' core beliefs are formed, ideally, through the best available formal theoretical and empirical research on these questions. So a conference volume like this one, seemingly esoteric to the outsider, can potentially change how economists—and ultimately policymakers—think about and implement monetary policy. For this reason, I think this conference volume could play an important role in the ongoing debate about the nature and direction of monetary policy over the next decade.

The current position of the FOMC is that price stability is a long-run goal, but I see little evidence of a consensus on what that means or a timetable to get there. Furthermore, outside the Federal Reserve System, few seem to believe that the U.S. economy will be characterized by price stability at the turn of the millennium. Instead, private forecasters, consumers and firms all seem to be planning for inflation at current levels or higher for the foreseeable future. I think these expectations show that the FOMC lacks credibility in financial markets regarding its longer-term inflation objective. A policy of continuing moderate inflation is expensive and unnecessary in my view, and the FOMC would do well to develop a plan to move inflation significantly lower over the next five years.

I hope these papers ultimately encourage more research in this broad area, because I think current monetary policy debates need better foundations both in theory and measurement. I salute those who participated in the conference, and I encourage their continuing research.

Thomas C. Melzer
President and Chief Executive Officer
Federal Reserve Bank of St. Louis