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Anything else on this topic or how the Fed thinks about maintaining price stability?

I think it's under review in 2019, and it's something the Fed will consider, I think, as part of its review. I think it's good to be thinking about possible innovation in monetary policy frameworks as time goes on. Surely, the framework we're using today will not be the same one we're using 50 years from now. And, in order to be able to evolve at the right moments, we have to have regular reviews and think about these issues. And I think that's the purpose of this framework review in 2019.

The Regional Economist offers insights on regional, national and international issues. Views expressed are not necessarily those of the St. Louis Fed or Federal Reserve System.

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James Bullard Discusses Nominal GDP Targeting

The text below first appeared as the President's Message in the second quarter 2019 issue of

[Regional Economist](<https://www.stlouisfed.org/publications/regional-economist>).

Federal Reserve Bank of St. Louis President James Bullard discussed nominal gross domestic product (GDP) targeting in a St. Louis Fed Timely Topics podcast that was released April 19, 2019. The following excerpts are from the podcast. They have been edited for clarity and length.

How does the Fed maintain price stability now?

My view of this is that, beginning in the 1990s, there was a coming together of the academic literature and practitioners in central banking around the concept of inflation targeting, which meant that central banks named an inflation target and conducted monetary policy in such a way as to hit that

inflation target over the medium term. And this is commonplace today but at the time was a big shift compared to the '70s and '80s, when there weren't any inflation targets and it wasn't at all clear, relatively speaking, what the various central banks were doing.

I have to say, in the big picture, that inflation targeting has been crazy successful. Inflation has been much lower and much closer to these inflation targets across the countries that adopted them. Inflation's been much less variable than it was in the '70s and '80s. The inflation expectations in these various countries have become much less volatile and much more clustered around the inflation targets. So, inflation targeting has been a great success story, and the question now would be, can you improve on that?

What is nominal GDP targeting, and how is it different from inflation targeting?

In inflation targeting, we would name the inflation target, but if we missed the inflation target—either on the high side or the low side—you wouldn't be too worried about it. You'd say, "Well, OK, we'll try to hit it again next year or over the medium term, and we won't worry about the fact that we've missed it this year or maybe several years in a row.

St. Louis Fed President James Bullard sat down with Karen Mracek on April 19, 2019, to discuss nominal GDP targeting.

With price-level targeting or its close cousin nominal income targeting, you would worry about past misses, and you would try to make up for past misses in such a way that you would stay on a path for the price level or a path for nominal GDP, depending on which route you went. But they're closely related.

So the main difference is that private-sector investors would understand that you were going to make up for past losses, and they would understand that if you missed to the low side in the past, this would mean that future policy would likely miss to the high side for a little while. And, vice versa, if you missed on the high side for a while, then you would probably miss on the low side in the future for a little while.

And, in so doing, at least in theory, this would further cement inflation expectations—even more than they’ve already been controlled by the inflation targeting regime that’s been in place the last 25 years. You would further pin down inflation expectations and therefore get even better monetary policy than what we’ve had over that period of time.

What would be the advantages of using nominal GDP targeting?

The biggest advantage is this idea that you would really cement inflation expectations around the target. This would give investors, financial market participants, households [and] businesses the confidence that the central bank really was going to deliver on what it said: It was going to deliver this 2% inflation rate. They could use that in their planning, and they could be reasonably confident that that was going to be the actual outcome in the economy over longer periods of time. This would help with getting the best allocation of real resources that we can get. So that would be the principal advantage.

I think the question about both nominal GDP targeting and price-level targeting is whether the additional gains that you would get are going to be that big compared to what you already are getting from inflation targeting.

Are there any disadvantages to nominal GDP targeting?

Some people say it hasn’t been tried and it would be hard to communicate. And I think one way to convey that idea is that it really relies on private-sector expectations understanding the policy, and because they understand the policy, they expect inflation to be right around 2%. And because of that, you get good things to happen in the economy.

It’s the kind of thing where you might say, “OK, we switched to nominal GDP targeting.” Nobody notices in the entire economy. No one pays any attention, and you don’t get any of these effects at all. I think that would be the kind of thing that is very practical and could possibly happen, because private-sector people might say, “Well, I don’t understand it,” or “I don’t see what the difference is between this and inflation targeting. It’s all too subtle.”

The theories are relying on these things being really tight and really

affecting these expectations a lot. But the reality might be a lot more distant than that.

Have any central banks used nominal GDP targeting?

No, not to my knowledge. And one of the criticisms is that we barely got everybody converted over to inflation targeting, and now you'd be switching again. The U.S., in particular, only named its inflation target in 2012. Japan's another country that didn't come around to inflation targeting until relatively recently.

It's not clear that you want to, then, make another change. Although I would say if you're going to make a change, you should make it during good times [and] not try to improvise when it's a very volatile area or high recession risk or something like that. If you wanted to make the change during calm, successful times for the economy, that's probably the time to do it.

I do think that one of the advantages of inflation targeting was that smaller countries took it on first and experimented with it, showed how it could be done, and then you had, eventually, the founding of the ECB [European Central Bank] coming on in the late '90s, and then the Fed following through later. And so you kind of tested it out in other places before you had the world's leading economies adopting it.

If the U.S. moved first and went with price-level targeting or nominal GDP targeting, that would be a different kettle of fish, and that would be something that has to be thought about carefully, I think. You'd be setting a trend in a global environment, and other countries would likely follow.

Anything else on this topic or how the Fed thinks about maintaining price stability?

I think it's under review in 2019, and it's something the Fed will consider, I think, as part of its review. I think it's good to be thinking about possible innovation in monetary policy frameworks as time goes on. Surely, the framework we're using today will not be the same one we're using 50 years from now. And, in order to be able to evolve at the right moments, we have to have regular reviews and think about these issues. And I think that's the purpose of this framework review in 2019.

Additional Resources • Timely Topics:

- On the Economy: [Can Monetary Policy Benefit Everyone in Society?](<https://www.stlouisfed.org/on-the-economy/2019/march/monetary-policy-benefit-everyone>)
- Annual Report: [Alternatives to Inflation Targeting](<https://www.stlouisfed.org/annual-report/2017/alternatives-to-inflation-targeting>)

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All other [blog-related questions](mailto:on-the-economy@stls.frb.org)

- **April 17, 2019.** Presentation. "[Optimal Monetary Policy for the Masses.](#)" 28th Annual Hyman P. Minsky Conference, Levy Economics Institute of Bard College, Annandale-on-Hudson, N.Y.
[Presentation \(pdf\)](#)
[\(bullard_dicecio_minsky_annandale_hudson_17_april_2019pdf\).](#)

Optimal Monetary Policy for the Masses

April 17, 2019

In a presentation at the 28th Annual Hyman P. Minsky Conference in Annandale-on-Hudson, N.Y., St. Louis Fed President James Bullard discussed his [working paper](<https://research.stlouisfed.org/wp/more/2019-009>) on whether monetary policy can be conducted in a way that benefits all households even in a world with substantial income, financial wealth and consumption inequality. In the paper, nominal GDP targeting constitutes “optimal monetary policy for the masses,” he said.

March 28, 2019