Statement on Policy Rules Legislation

We support the legislation entitled *Requirements for Policy Rules of the Federal Open Market Committee*, Section 2 of the Fed Oversight Reform and Modernization Act (H.R. 3189) which passed the House of Representatives on November 19, 2015. This important reform would lead to more predictable rules-based monetary policy. It is based on evidence and experience that monetary policy works best when it follows a clear, predictable rule or strategy. A rule reduces uncertainty by giving the public information about future policy actions.

The legislation requires that the Fed "describe the strategy or rule of the Federal Open Market Committee for the systematic quantitative adjustment" of its policy instruments. The Fed would choose the strategy and how to describe it. The legislation does not chain the Fed to any rule, and certainly not to a mechanical rule. The Fed could change its strategy or deviate from it if circumstances called for a change, in which case the Fed would have to explain why. To improve communication about its strategy, the legislation requires that the Fed compare its rule or strategy with a reference rule, as is common practice.

The legislation enables the Congress to exercise better oversight over monetary policy. It would prevent the Congress from micromanaging the Fed or subjecting it to capricious short-run changes in political views or desires. If the Fed says that it plans to follow a strategy and it does not, then an answer is required. There is precedent for this type of oversight: From 1977 to 2000 the Federal Reserve Act required that the Fed set and report ranges of the monetary aggregates. The new legislation would fill a void created by repeal of that oversight in 2000.

The Fed would still serve as lender of last resort or take appropriate actions in the event of a crisis. Having a strategy or rule does not mean that instruments of policy are fixed, but rather that they adjust in a systematic and predictable way.

In no way would the legislation compromise the Fed's independence. On the contrary, publically reporting a strategy helps prevent policy makers from bending under pressure and sacrificing independence. It strengthens independence by reducing or removing pressures from markets and governments to finance budget deficits or deviate from policies that enhance economic stability.

The decision by the Fed to adopt a numerical inflation goal is welcome, but such a goal is not a strategy for the instruments of policy. The new legislation would provide for that strategy, and thereby improve economic performance.

Lars Peter Hansen, Robert Lucas, Edward Prescott, George Shultz, Robert Heller, Jerry Jordan, Athanasios Orphanides, William Poole, Michael Bordo, Michael Boskin, Charles Calomiris, Varadarajan Chari, John Cochrane, John Cogan, Steven Davis, Marvin Goodfriend, Gregory Hess, Peter Ireland, Mickey Levy, Bennett McCallum, Allan Meltzer, Gerald O'Driscoll, Lee Ohanian, Scott Sumner, John Taylor