Session 1: "Finishing the Job of Returning Inflation to the Fed's Target"

Moderator: Mickey Levy; Panelists Jim Bullard, Peter Ireland and Evan Koenig

In December 2020, Michael Bordo and I work a lengthy NBER Working Paper on the history of deficits and inflation and signaled a warning about inflation on the horizon. I subsequently had a series of WSJ articles arguing that inflation would rise and the Fed played a heavy role driving it. And Peter Ireland, one of today's panelists, and I made a presentation to at the October 2021 SOMC meeting arguing that inflation would rise significantly and that the Fed should keep its eyes on aggregate demand and nominal GDP.

Indeed, inflation did surge, and the Fed has been successful in substantially reducing inflation from its lofty levels (even though it still denies that it had anything to do with the high infaltion, but a big frustration has been the Fed's reluctance or inability to reduce inflation to its 2% target.

-Early on, the Fed blamed transitory supply shocks, at a time when aggregate demand was accelerating sharply.

-That argument faded

-The Powell regime paid lip service to its 2% inflation target but clearly tolerated higher. Witness late 2025 when it lowered rates 3 times when inflation was above 2% in response to weak employment gains. This revealed its reaction function—that in its dual mandate, employment is a higher priority than 2% inflation.

-Until the last FOMC meeting he chaired, Powell persisted in arguing that monetary policy was slightly restrictive. That reflected the Fed's model that somehow ignored the too-rapid growth in aggregate demand, including a pickup in money supply growth and rising velocity, a real Fed funds rate that was below the FOMC's median estimate of longer-run r* and Taylor Rule estimates.

Enter Kevin Warsh, who has emphasized that above-2% inflation is intolerable. So far, the Fed has raised its policy rate target once, to 3.75%-4.0%. It's not the first time the Fed has raised rates during national election year, but it's still noteworthy. The Fed paused at its meeting this week, although most Fed members have expressed that further rate increases are appropriate.

Let's look forward and ask our panelists:

*What does the Fed need to do to "finish the job", and when inflation reaches 2%, what should the Fed do then?

* What measures of inflation are appropriate to look at and what measures or indicators of monetary thrust and economic conditions should the Fed follow to determine that it is on the right track?

*Is it acceptable to expect that it will take until 2029 to achieve 2% inflation, as the Fed currently projects?

Let’s now turn to our panelists.