PRESIDENT'S MESSAGE

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I participated in my first FOMC meeting in January 2003, as an incoming Reserve Bank president. The session opened with a lengthy, detailed discussion about policy rules. Specifically, we reviewed the evidence on whether the Federal Reserve's targeting of the federal funds rate had been following a systematic decision-making process.

It was a technical discussion, to say the least. But near the end of the afternoon, the late Federal Reserve Board Governor Edward (Ned) Gramlich put the whole conversation into context: "What is important," he said, "is to clarify to markets what we care about. We care about stable prices and maximum employment."

Stable prices and maximum employment—that is the Federal Reserve's dual mandate from Congress. More directly, Governor Gramlich was highlighting the importance of having a clear, consistent objective that everybody follows. When the public understands that the Federal Reserve is committed to both parts of its objective, monetary policy is much easier to conduct.

Over the years, the Federal Reserve has taken many steps to enhance how we communicate our policy intentions to the public. I believe now is an opportune time to take another important step along that path—to publicly announce an explicit numerical inflation objective.

In this issue of *Forefront*, I lay out my case for such an objective, arguing that a 2 percent goal over the medium term would not only convey our policy aim better, but would also affirm our resolve to achieve price stability. That essay, along with supporting articles by our Bank's economists, also appears in the Federal Reserve Bank of Cleveland's 2010 annual report. With this double emphasis, we hope you will better understand why an explicit inflation objective is consistent with the Federal Reserve's dual mandate and, in fact, would improve our ability to ***fulfill*** that mandate.

This issue is rounded out by interviews with the University of Rochester's Mark Bils on price measurement and with Carnegie Mellon University's Marvin Goodfriend on the recent history of inflation objectives. These economists' views illustrate the importance of price stability in our everyday lives.

As we move into summer, I think the U.S. economy has gained a firmer footing. Even with the recent oil and other commodity price shocks, the recovery continues. Employers are creating new jobs, and there are signs that job growth will accelerate as the year progresses. I am also keeping a close eye on signs of inflation. Without price stability, it is highly unlikely that our economy can achieve and sustain maximum employment.

I believe an explicit inflation objective will help us produce both price stability and maximum employment. As Governor Gramlich wisely observed, when the public understands what the Federal Reserve seeks to achieve, and has confidence in our ability to achieve it, then we can be even more effective in reaching those goals. ■