Some of you may be surprised to see
a new face on this page. On April 1,
I became president and CEO of the
St. Louis Fed, succeeding William Poole.
If you supported Bill’s thinking on mon-
etary policy, take comfort in knowing
that I did, too, and plan to continue in
that monetarist tradition for which the
St. Louis Fed is known.

While I’m new in this position, I’m not
new to the St. Louis Fed. I’ve been an
economist here for 18 years. As deputy
director of research for monetary analy-
sis, I worked side by side with Bill, helping
him craft his policies and helping him
prepare for FOMC meetings. For years,
I’ve had access to the same information
that members of the committee had.

Although you might be satisfied in
knowing that there’s continuity at the
helm, I want to share with you some
of my fundamental beliefs about mone-
tary policy.

In essence, price stability should be the
No. 1 goal of policymakers today. Forty
or 50 years ago, policymakers took on
multiple objectives: low inflation, low
unemployment, low nominal interest
rates, stable exchange rates—even growth
in housing production. More recently,
the Fed’s mission has been boiled down
to the dual mandate of price stability and
maximum sustainable employment. Ben
Bernanke and his two immediate prede-
cessors have emphasized that price sta-
Bullard’s Approach to Monetary Policy Won’t Change
bility is a precondition for maximum
sustainable employment.

What is price stability? In recent policy
discussions, it has not meant that prices
always stay the same or that price indexes
always revert to an average. Rather,
because of possible biases in available
indexes, price stability is a small, positive
rate of inflation, say 0.5 to 1.5 percent a
year, depending on the price index
being used.

A specific inflation target has been
adopted by some central banks, such as
those of Canada, the United Kingdom and
Europe. The FOMC has yet to go that far.
However, even without an explicit numeric
target, the Fed has been able to bring infla-
tion down and keep it relatively low over
the past several decades.

A key concern today is that inflation
and inflation expectations are on the rise.
Since late last summer, the Fed has been
battling financial market turmoil, which
has threatened to send the economy into
recession. During the spring, the turmoil
became less severe, allowing the Fed to
turn attention back toward its price stabil-
ity objectives.

One important issue facing the FOMC
concerns the use of core measures of
inflation to judge success or failure. This
practice works well when energy and food
prices are volatile but ultimately rise at the
same rate as other prices. But that is not
what is happening today. As many of you
are aware, energy prices in particular have
simply been rising faster than other prices
most of the time over the past five years.

The problem is that, as we are all pain-
fully aware, we have to pay the energy and
food prices along with the core prices. It is
hurting Fed credibility to say that we are
trying to keep inflation low and stable,
but at the same time we are not counting
some of the prices that are going up at the
most rapid pace.

To read Bullard’s bio and his writings, go to