CHAPTER SIX

Monetary Rules and Committees

Stanley Fischer

In this chapter, I offer some observations on monetary policy rules and their place in decision making by the Federal Open Market Committee (FOMC).[1] I have two messages. First, policy makers should consult the prescriptions of policy rules, but—almost needless to say—they should avoid applying them mechanically. Second, policy-making committees have strengths that policy rules lack. In particular, committees are an efficient means of aggregating a wide variety of information and perspectives.

MONETARY POLICY RULES IN RESEARCH AND POLICY

Since May 2014, I have considered monetary policy rules from the vantage point of a member of the FOMC. But my interest in them began many years ago and was reflected in some of my earliest publications.[2] At that time, the literature on monetary policy rules, especially in the United States, remained predominantly concerned with the money stock or total bank reserves rather than the short-

1. Views expressed in this presentation are my own and not necessarily the views of the Federal Reserve Board or the Federal Open Market Committee. I am grateful to Ed Nelson of the Federal Reserve Board for his assistance.

2. See, for example, Cooper and Fischer (1972).

term interest rate.[3] Seen with the benefit of hindsight, that emphasis probably derived from three sources: first, the quantity theory of money emphasized the link between the quantity of money and inflation; second, the research was carried out when monetarism was gaining credibility in the profession; and third, there was a concern that interest rate rules might lead to price-level indeterminacy—an issue disposed of by Bennett McCallum and others.[4]

Subsequently, John Taylor's research, especially his celebrated 1993 paper, was a catalyst in shifting the focus toward rules for the short-term interest rate.[5] Taylor's work thus helped change the terms of the discussion in favor of rules for the instrument that central banks prefer to use. His 1993 study also highlighted the practical relevance of monetary policy rules, as he showed that a particular simple rule—the rule that now bears his name—provided a good approximation to the behavior of the federal funds rate during the

3. There was, however, a long tradition of monetary analysis in the United Kingdom and continental Europe centered on the authorities' use of the interest rate as an instrument. See especially Keynes (1930) and Wicksell (1936). In the post–World War II decades, this tradition continued in the UK research literature on monetary policy: examples include Currie and Levine (1987) and Flemming (1993). In addition, an interest rate was the policy instrument in some key contributions to open-economy monetary theory, such as Meade (1951) and Mundell (1960). These traditions likely reflected the long-standing use of bank rate as a policy instrument in the United Kingdom and the fact that, for most of the period from the Treasury/Federal Reserve Accord of 1951 until the 1990s, central banks in countries other than the United States tended to be more explicit than the Federal Reserve chose to be about their use of short-term interest rates as their primary policy instrument. Even in the US context, however, there was a certain amount of research on interest rate policies. For example, it was common practice among builders of large econometric models to consider different Federal Reserve interest rate strategies (see Ando 1981). In addition, the empirical and simulation properties of the Federal Reserve's interest rate reaction function were the concern of such studies as Dewald and Johnson (1963), DeRosa and Stern (1977), Dornbusch and Fischer (1979), and Henderson and McKibbin (1993), while Sargent and Wallace (1975) and McCallum (1981) examined the analytical properties of interest rate rules. A later magisterial study of the analytics of interest rate rules was Woodford (2003).

4. See McCallum (1981). I should add that when we presented work based on Cooper and Fischer (1972), we were urged by several economists to focus on the interest rate as the monetary policy instrument. Among these economists were Albert Ando and Franco Modigliani, who were then working with others on building the MPS (MIT–Pennsylvania–Social Science Research Council) model.

5. See Taylor (1993).

early Greenspan years. The research literature on monetary policy rules has experienced a major revival since Taylor's seminal paper and has concentrated on rules for the short-term interest rate.

Consideration of interest rate rules has also, as I will discuss, come to have a prominent role in FOMC discussions, with the Taylor rule being one benchmark that we regularly consult. But—building on recent remarks I made elsewhere—I will also indicate why policy makers might have good reasons for deviating from these rule benchmarks and why, in pursuing the objectives of monetary policy, they could appropriately behave in ways that are not well characterized by simple monetary policy rules.[6] In particular, I will point to reasons why the FOMC's discussions might lead to decisions that depart—temporarily or permanently—from the prescriptions of baseline monetary policy rules.

RULES AS A BENCHMARK FOR POLICY DISCUSSIONS

Some perspective on the status of policy rules in FOMC discussions is provided by considering what has changed over the past twenty years. Donald Kohn, at a landmark conference organized by John Taylor in January 1998, described the role played by monetary policy rules in the FOMC briefing process.[7] His account noted that Federal Reserve staff members presented FOMC participants with prescriptions from several policy rules, including the Taylor (1993) rule. This description remains true today. Publicly available Blue Books and Teal Books of successive years demonstrate that the

6. For my earlier speeches in this area, see Fischer (2017a, 2017b).

7. See Kohn (1999). At the time, Donald Kohn was director of the Division of Monetary Affairs at the Federal Reserve Board. The conference proceedings were published as Taylor (1999a).

coverage of policy rules in the briefing material provided by the board staff expanded considerably in the years after Kohn spoke.[8]

Kohn noted that policy rule prescriptions served two functions: as a "benchmark for the stance of policy" and "to structure thinking about the implications of incoming information for the direction of policy action."[9] These two functions continue to be important: Policy rule prescriptions provide a useful starting point for FOMC deliberations and a convenient way of organizing alternative arguments about the appropriate policy decision. Policy rule prescriptions, particularly prescriptions obtained from a dynamic model simulation, also help policy makers take to heart a key message of the literature on policy rules—namely, that monetary policy decisions should concern the appropriate *path* for the policy instrument and not merely the current setting of that instrument.

Kohn also observed, however, that "in truth, only a few members look at this or similar information regularly, and the number does not seem to be growing." That state of affairs has probably changed in the two decades since Kohn wrote. It is clear from transcripts in the public record that rule prescriptions have frequently been cited at FOMC meetings.[10] The prominence that interest rate rules have achieved in Federal Reserve policy makers' analysis of monetary policy was underscored by Chair Yellen in her speech at Stanford University earlier this year.[11]

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8. The Federal Reserve Board's website (https://www.federalreserve.gov/monetarypolicy/fomc_historical_year.htm) provides downloadable copies of the briefing books (the Green Book and Blue Book, which were replaced in 2010 by the Teal Book) distributed to FOMC members and other participants ahead of each FOMC meeting. At present, the most recent year for which these materials are available on the site is 2011. The "Monetary Policy Strategies" portion of the Blue Book (and later, the Teal Book) contains prescriptions from interest rate rules.

9. Kohn (1999, 195). The first of these functions of policy rule prescriptions was one I also had highlighted. When considering McCallum's (1988) proposed rule for monetary base growth, I described it as "a useful benchmark against which to judge policy" (Fischer 1994, 289).

10. Searchable transcripts of FOMC meetings up to 2011 are available on the board's website at https://www.federalreserve.gov/monetarypolicy/fomc_historical.htm.

11. See Yellen (2017).

Further, as is clear from Taylor's econometric derivation of his 1993 rule, actual monetary policy decisions may—and probably should—exhibit systematic patterns that can be described as a rule. In fact, as I have already noted, one attraction of the 1993 Taylor rule was that it described US monetary policy patterns well over a certain period, one that was associated with a reasonable degree of economic stability.

Nevertheless, central bankers who are aware of the merits of the arguments for policy rules have on occasion deviated substantially from the prescriptions of standard policy rules. Further, while the implications of different monetary rules are described in the Teal Book and typically referred to in presentations by FOMC participants, the overall discussion in FOMC meetings is not generally cast in terms of how it relates to one version or another of the Taylor or any other rule. The other set of rules mentioned frequently in FOMC discussions is Wicksellian, for there is often a discussion of r^*, which in some formulations of the Taylor rule is also the constant term.

The period since 2008 bears testimony to central bankers' willingness to depart from the prescriptions of a prespecified rule. In the wake of the financial crisis, policy makers found it necessary to follow a more accommodative monetary policy appropriate for the new economic conditions.[12] In addition, structural changes in the US economy have apparently lowered the value of the interest rate—that is, r^*—consistent with neutral policy.[13]

Such structural changes were not anticipated in advance.[14] Of course, once a structural change has occurred and been ascertained

12. See especially Engen, Laubach, and Reifschneider (2015). Because the federal funds rate was at its effective lower bound from late 2008 to late 2015, policy choices about that rate largely involved decisions concerning the forward guidance provided by the FOMC. These decisions in turn rested on judgments regarding the period over which the rate should remain at its lower bound, as well as about the pace and magnitude of the subsequent policy firming.

13. See, for example, Board of Governors (2017).

14. Indeed, Milton Friedman's advocacy of a policy rule consisting of constant monetary growth rested in part on the existence of uncertainty, as he suggested that economists lacked

by policy makers, they know what rules would likely have performed well in the face of that change. For this reason, policy makers might change their judgment about which monetary policy rules constitute reasonable benchmarks—or, over time, they might develop a procedure for revising the monetary rule. But a frequently revised rule does not really qualify as a rule in the sense that we currently use the term.

Consequently, when considering the relationship between monetary policy decisions and monetary policy rules, we can expect two regularities to hold. First, actual monetary policy will sometimes appropriately depart from the prescriptions of benchmark rules even when those benchmarks describe past decisions well. Second, in their use of rules, policy makers will from time to time change their assessment of what rule they regard as the appropriate benchmark. Both regularities have been amply observed in recent years, but they were also present twenty years ago, as reflected in Kohn's remark that policy makers "do not see their past actions as a very firm guide to current or future policy."[15] Or, as a teacher of mine at the London School of Economics, Richard Sayers, put it much earlier, "There is no code of eternal rules. . . . We have central banks for the very reason that there are no such rules."[16]

As I will now elaborate, I believe the fact that monetary policy is made by committees in most economies is important in understanding both of these regularities.

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the knowledge about economic relationships required to improve on that simple rule. See Friedman (1972) for a concise version of his case for the rule and Dornbusch and Fischer (1978, 278–80, 516) for a textbook account of Friedman's rule that emphasized the uncertainty aspect of his argument for the rule. Of course, the fact that a policy rule is simple far from guarantees that the rule will generate satisfactory economic outcomes in the face of uncertainty and economic change. For example, Friedman's rule would likely perform poorly in an environment in which the trend rate of growth of monetary velocity underwent a major shift, while the Taylor rule could perform unsatisfactorily if the assumption about potential-output behavior embedded in the rule proved to be badly mistaken. The latter possibility was stressed in Orphanides (2003).

15. Kohn (1999, 195).

16. Sayers (1958, 7).

THE ROLE OF COMMITTEES IN POLICY FORMATION

Monetary policy decisions in the United States and elsewhere typically arise from the discussion and vote of a committee.[17] In principle, a monetary policy committee could decide to follow a rule. But a decision of this kind is unlikely to occur in practice. Committee discussions bring into policy-making features that a rule lacks. A committee-based decision process is, I suggest, likely to produce policy decisions that depart from the prescriptions of benchmark rules.

A policy rule prescription is more consistent with a single perspective on the economy than with the pooling of multiple perspectives associated with a committee policy-making process. Roger Lowenstein's book *America's Bank* details how the founding of the Federal Reserve involved reconciling a large number of interests in the United States.[18] In a similar vein, the modern FOMC framework involves participation by twelve reserve bank presidents, each of whom represents a different district of the country. The FOMC framework also balances centralized and decentralized decision making by having most of the permanent voting members—specifically, the Board of Governors—based in Washington, DC.

All of the FOMC participants have common goals—maximum employment and price stability—which are given by the Federal Reserve's statutory mandate. They have also agreed, for pursuing that mandate, on the Statement on Longer-Run Goals and Monetary Policy Strategy.[19] But while they have this common ground, each FOMC participant brings to the table his or her own perspective or view of the world. Part of their role in meetings is to

17. I discussed some of the literature on monetary policy committees in Fischer (2017b).
18. See Lowenstein (2015).
19. See Federal Open Market Committee (2017).

articulate that perspective and perhaps persuade their colleagues to revise their own perspectives—or vice versa.

A member of a committee may well have valuable economic information not known by their colleagues until he or she relays it. This point has been brought home to me by reserve bank presidents' accounts of recent economic developments in their districts. These narratives shed light on the real-world developments that lie behind the recorded economic data. They also help shape my interpretation of what part of incoming data may be an important signal and what part may reflect transitory factors or mismeasurement.

The information underlying a policy decision is, therefore, crucially shaped by a committee system. Committees can aggregate a large volume of diverse information about current and expected future economic conditions. The information includes anecdotes and impressions gleaned from business and other contacts, which can provide insights that are not recorded in current data releases.

In practice, it is likely that the information obtained and processed by the committee will leave the FOMC less inclined to follow a benchmark rule. For example, the committee's discussions might point up factors that have not yet affected real economic activity and inflation. Such factors would not lead to an immediate change in the prescription for the federal funds rate obtained from a rule like the Taylor rule, as this prescription is a function of current values of the output gap and inflation. The committee might nevertheless wish to adjust the federal funds rate immediately because the newly unearthed factors are likely to affect output and inflation in coming months.

In addition, and as I have suggested, policy makers might also encounter unexpected or unusual events, or both, or they might perceive changes in the structure of the economy. A committee process is conducive to assessing the appropriate policy response to these developments. A case in point is the decline, as I mentioned, in estimates of the neutral interest rate. The concept of the neutral interest rate is a way of summarizing the various forces, many of them unobservable, that shift the relationship between monetary policy and economic activity. Bringing to the table diverse perspectives is a pragmatic way of confronting such deep sources of uncertainty and deciding how to deal with them. A committee discussion can flesh out the factors behind changes in the neutral rate, and a committee would likely be able to identify such changes more promptly than would a statistical exercise, because of the wider set of information from around the country that the committee is able to process.

The decision-making environment that I have described involves more flexibility for FOMC members than they would have if they simply followed a policy rule. But transparency and accountability must figure heavily in this more flexible environment. The FOMC's policy communications include its post-meeting statement, the minutes of its meetings, the chair's quarterly press conference, the chair's semiannual monetary policy testimony to the Congress, and other public remarks by individual FOMC members. In this framework, policy makers articulate the reasoning behind each decision and, in particular, explain how the policy decision contributes to the achievement of the committee's statutory mandate.

There remains a deeper question about committee decision making: Why have almost all countries decided that monetary policy decisions should be made by a committee rather than by a rule? One answer is that laws in most countries are passed by institutions in which committee deliberation is the norm. Of course, we then have to ask why that has become a norm in almost all democracies. The answer is that opinions—even on monetary policy—differ among experts, while the economy is in a constant process of change.

Because opinions differ among experts, democracies tend to prefer committees in which decisions are made by discussion among the experts—and, in many cases, other representatives of the public—who discuss, try to persuade each other, and must at the end of their deliberations reach a decision. But those decisions have to be explained to the public and to other parts of the government—and hence the appropriate emphasis on transparency and accountability. That is the democratic way of making decisions when opinions differ, as they often do in the monetary field.

I have been a governor of two central banks and, even as the sole decision maker on monetary policy in the Bank of Israel, sometimes found that my initial view on the next decision changed as a result of discussions with the informal advisory committee with which I consulted at that time. Those discussions, which recognize human frailty in analyzing a situation and the need to act despite considerable uncertainty, are the reason why committee decision making is, *on average*, preferable to the use of a rule.[20]

Emphasis on a single rule as *the* basis for monetary policy implies that the truth has been found, despite the record over time of major shifts in monetary policy—from the gold standard, to the Bretton Woods fixed but changeable exchange rate rule, to Keynesian approaches, to monetary targeting, to the modern frameworks of inflation targeting and the dual mandate of the Fed, and more. We should not make our monetary policy decisions based on that assumption. Rather, we need our policy makers to be continually on the lookout for structural changes in the economy and for disturbances from hitherto unexpected sources.

CONCLUDING REMARKS

The prescriptions of monetary policy rules play a prominent role in the FOMC's monetary policy deliberations. And this is as it should be, in view of the usefulness of rules as a starting point for policy

20. The existing literature on monetary policy committees has found that committee decisions tend to be better than decisions made by a sole policy maker. See, for example, Blinder and Morgan (2005); Lombardelli, Proudman, and Talbot (2005); and Warsh (2016).

discussion and the fact that comparison with a benchmark rule provides a useful means of articulating one's own preferred policy action. But, for the reasons I have outlined, adherence to a simple policy rule is not the most appropriate means of achieving macroeconomic goals—and there are very good reasons why monetary policy decisions are typically made in committees, whose structure allows participants to assess the varying conditions of different regions and economic sectors, as well as to reflect different beliefs about the working of the economy.

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GENERAL DISCUSSION

JOHN TAYLOR: Stan, in this talk, you've again hit on one of the most important issues I can think of, which is how you can have strategies or rules where committees are making decisions. I have lots of questions, but I just want to raise a quick one. Greenspan, when he was chair, said the Fed deserved an assist in creating the Taylor rule. And so, there is a sense in which there are periods when there's more or less a strategy. And so, it's not impossible to think about committees coming to agreement on a strategy. There are laws. Laws are passed. I'm not saying it should be all one way. But a law is a way to come to an agreement, and some people disagree. But there's compromises. So it's not impossible, and we have some history. I agree one hundred percent that you've focused on a very important issue here. But it seems to me it's not impossible to put committee-making decisions and rules-based policy together.

STANLEY FISCHER: Well, I think that's right. It's not impossible and can be done for a period of years. Agreements always break down, and then you have to figure out what set of rules you're going to have for changing the rules. In Canada, they have inflation targeting, but every five years the central bank and the finance minister have to reach a fresh agreement on it. That's a way of dealing with the uncertainties that's not impossible to envisage.

I'm always struck by one thing, John, and you'll excuse me explaining this to the audience. Whenever John and I have a conversation on monetary rules, I come out thinking, Why do people argue about this issue? But then, people do argue about this issue. We've got to ask ourselves, What is the problem? I think the problem is we're describing a rule for monetary policy that is like the rule of the Medes and the Persians—it's never going to change. But we know that it is going to change. And that, I think, is why we have not been willing to agree to a rule. So I can envisage, say, in the case of inflation targeting, a procedure in which you can change the target, or you can change the other variables that are involved on some regular basis, through some regularly undertaken calculation, and you say, "That's my rule." My rule is an equation at a moment in time, combined with footnotes that tell you how to deal with special circumstances and combined with another few paragraphs that tell you how to revise it over the course of time. If that's a rule, it sounds like a law. It's something that I can envisage.

ROBERT HELLER: Stan, you talked eloquently about the advantages of the diversity of views that you get in the FOMC and the various opinions, and how that really helps. Why do you think there is such enormous pressure on people to have unanimity in the FOMC? Why not have, like the Supreme Court does, split votes of seven to five, or six to whatever. That would reflect the diversity of views you so value.

STANLEY FISCHER: I think the issue relates to the size of the committee and the need to drive it to a decision on a particular date. Mervin King used to say that he wanted to be in the minority from time to time, just to show that he could be in the minority and the world didn't end nor did the Bank of England break down on that particular day. Well, that's not been the tradition in the Fed. The tradition in the Fed goes the other way. And if you have a fair number of dissents, you already start being in trouble, as happened to Paul Volcker, who people held in high regard, yet in the end he had difficulty getting some of his decisions through. The system could tend to break down. What happens if there isn't somebody, some group, trying to drive decisions in a particular direction over the course of time? If you were very close to having two political parties among the nineteen members of the board, I think you'd have very bad monetary policy. And it's that need for some coherence in what comes out of the meeting that pushes the Fed in the direction of preferring minimal dissent.

In preparing for this lecture, I read some of the papers and books edited or written by John Taylor. The literature on the optimal committee size says five. I was chair of a committee of six, which had originally been seven, just to tell you about Israel. I thought, "Well, it'll be fine. So we'll have four outsiders and three insiders." So we put that into law and I sent that to the Treasury, and the head of the Treasury called me and said, "Listen, Stan. You're not in New Zealand. You're in Israel. If you don't start with some advantage, you're going to be outvoted very, very often." So we got down to six, with a double vote for the chairman if there was a tie. So we had a small committee with that characteristic.

And then something interesting happened, which relates to the Fed in some ways. I never used the double vote. But somewhere near the end of my term, as the meeting progressed, I thought I was going to have to use the double vote for the first time. And then we had the vote, and my view won, four to two. So at the end of the meeting, I spoke to the guy who I knew for sure preferred the opposite decision. And I said to him, "Why didn't you vote as I expected you to vote?"

He said, "I thought this issue was too small for you to have to break the rule of not using the double vote."

So that's when you see a committee trying to work as a committee and not as six different people. Now there are questions about that. The principles set out for the Bank of England are that everybody votes as a person and not as members of the committee. I'm not sure which is better. Because you've got to keep meeting. You've got to keep making decisions. And you've got to be able to speak freely if you're going to make good decisions. I don't know which way was the right way. On that particular day, I appreciated that guy's choice, but it wasn't critical in any way. It was just something about forming a group of people to make a decision.

GEORGE SHULTZ: You have a broad mandate. And you have certain specified tools. But sometimes you must see that the tools you have aren't enough to satisfy the mandate. Maybe you think tax policy should be different or spending policy should be different. To what degree do you feel a compulsion to speak up on behalf of your mandate to get other people to do what they should do?

STANLEY FISCHER: Well, the answer is, at first thought, very often I'm tempted. And then I say to the people around me, "I'm going to go and say something this time."

And they'll say, "You can't do that!"

And then I say, "Why not?"

And then they explain to me why I can't do that. The last thing we need is a war with the Congress, for example. So in the end, I rarely express my views. That was not the case in Israel, but it's a different culture. On the first day I was there, I said to a fairly large staff, "What I don't want to hear from you is what you think my views are. And if I find examples of that, I'll be very irritated." Well, I didn't suffer from that problem at all. They don't care. They just say what's on their mind, and that's a very attractive way—to my mind—that their society works. But it may only work in a small country. I'm not sure it works in a very large country.

MICHAEL BOSKIN: Stanley, my question is a corollary of George's. To what extent does, and to what extent should, the FOMC take into account the effect of its behavior on enabling fiscal policy that might be deleterious in the long term? For example, enabling greater government long-term debt issuance, especially when the deleterious effects may be well outside what you're looking at in the short-term determination of monetary policy?

STANLEY FISCHER: I've thought about that often in having arguments with the European non–central bank officials about what they want the ECB to do. And I decided I'm not going to play that game. I'm not going to be somebody who undertakes a policy to influence something that is not in my area, which is the clearly defined responsibility of someone else—the finance minister or the government, as the case may be—because I will inevitably have to start lying at some stage if I go down that route.

They ask, "Why do you say this, Mr. Fischer?" And then you start giving some story that is not exactly the true story. So I told European policy makers, "You're asking me to do your job. You're the finance minister. You want this small budget. You wanted to have a small deficit. Well, go out and argue for it. I'm not going to go out and argue for it on your behalf through my actions." It's a very tough point to get to. But I think that having to go out and play the other game is not one you'll be capable of doing for any length of time.

I'm sure that, Mike and George, sometimes there will be things about which you say to yourself, "Dammit, I just have to say something." But the bar is very high. And should be very high. It's not our job.

ANDREW LEVIN: I really like the approach that Peter Fisher proposed last spring, and I'm wondering if you would react to it. Peter has recommended several times (including at this conference a couple of years ago) that the central bank, at its organizational meeting every January, should adopt a specific quantitative strategy. It would indicate clearly to the public that it's going to follow that benchmark strategy through the year, explain to the Parliament or the Congress why it has adopted it, and how it's relevant for the future and the past. The strategy could be formulated in terms of a Taylor rule or a variant of the Taylor rule or a set of contingency plans. This approach would solve the cacophony problem to a large extent. It would be flexible, because it could change it in future years. Or, if it works well, the central bank could stick with it. It seems so sensible to me, and of course I think of Peter Fisher being very sensible. Why isn't that approach the right way forward?

STANLEY FISCHER: Because I don't understand the logic of it. What is it? You can fix it for a year, and you can change it, and in the middle something happens that indicates you left something out of your rule. That's what happens. You get into a crisis, you have to do something, and you do it. You do things that are within your power. We don't have the capacity that the British have, which is that the the governor of the Bank of England can make a deal with the finance minister or the chancellor of the exchequer that will stick. I think a deal between the Fed chair and the secretary of the Treasury on something that is important will not stick. We don't have such flexibility with regard to the law. And that is a problem.

But Andy, what is the benefit of that approach? We're telling people in the market, "Look guys. We're just a terrible source of noise." When we take actions normally, we take actions that may not be intended to help the economy. If you want to know what we're going to do, decide what people like us do on the basis of our record, and put your money where your mouth is. And I frequently think, and this is impolitic of me to think that way, what is the job of people who make their living off the financial markets? It's to make a living off the financial markets and to thereby, if you believe in some invisible hand, cause the markets to move in the direction that supports or, if we are erring, makes more difficult the job of the central bank. So they've got to do something, and I can't figure out, aside from making their lives easier, what we're doing. That's a question, Andy.

ANDREW LEVIN: Fed officials have repeatedly emphasized the importance of being data dependent, not calendar dependent. That's what a benchmark is. The basic purpose of a quantitative strategy and contingency planning is to explain how things would change if something happens during the year.

MICHAEL BORDO: Stan, my question is, why was Alan Greenspan so successful in following what may be, ex post at least, rule-like policy? Was it good luck or good policy? This is an old question, and the reason people often give for the departure from that strategy in the last decade is "Well, we had a big financial crisis." My question is, Was the crisis a climacteric? Was there a permanent change in the world? Or are we going back to something like the normality we observed before the crisis? My reading of American economic history is that we will go back to something like normalcy. And if that is the case, why can't we have a rules-based system?

STANLEY FISCHER: But what is the benefit of the rules-based system if you appoint decent people to the job, and they say, this is what we plan on doing, but they don't follow a rule that is publicly announced? What is the benefit of that?

I'm going to stick to this. I know that there will be occasions when it's wrong. Why did I have to say that?

MICHAEL BORDO: Didn't you say before that rules need to be contingent?

STANLEY FISCHER: Yes, but the question is, Am I committed to this thing or not? Are there occasions on which I will be doing things I otherwise wouldn't do if I didn't have the rule?

ROBERT HELLER: You do it from one FOMC meeting to the next, or for six weeks at a time. You can say, "For the next six weeks, the fed funds rate. . . ."

STANLEY FISCHER: That's true. The Bank of India has, I think, only four scheduled meetings a year, but they're allowed to change the rate between meetings, and apparently, they meet every week to change. I'm not sure that's what we do.

MICHAEL BORDO: Rules are contingent. It's what you said before.