
The Future of Odyssean and Delphic Guidance

*Leveraging communication for policy effectiveness and reputation
European Central Bank*

*Frankfurt
November 14, 2017*

Charles L. Evans
President and CEO
Federal Reserve Bank of Chicago

The views I express here are my own and do not necessarily reflect the views of the Federal Open Market Committee (FOMC) or within the Federal Reserve System.

Delphic & Odyssean Communications

- **Delphic \Leftrightarrow Well-understood, well-functioning monetary policy framework**
- **Odyssean \Leftrightarrow Weaknesses in framework are exposed, requires commitment to outcome-based policies**
- **Better strategy: Convert Odyssean to Delphic by strengthening the monetary policy framework**

Two Examples of Delphic Communications

- Taylor Rule (1993)

- Optimal control against loss function

$$L = (\pi - \pi^*)^2 + \lambda(u - u^*)^2$$

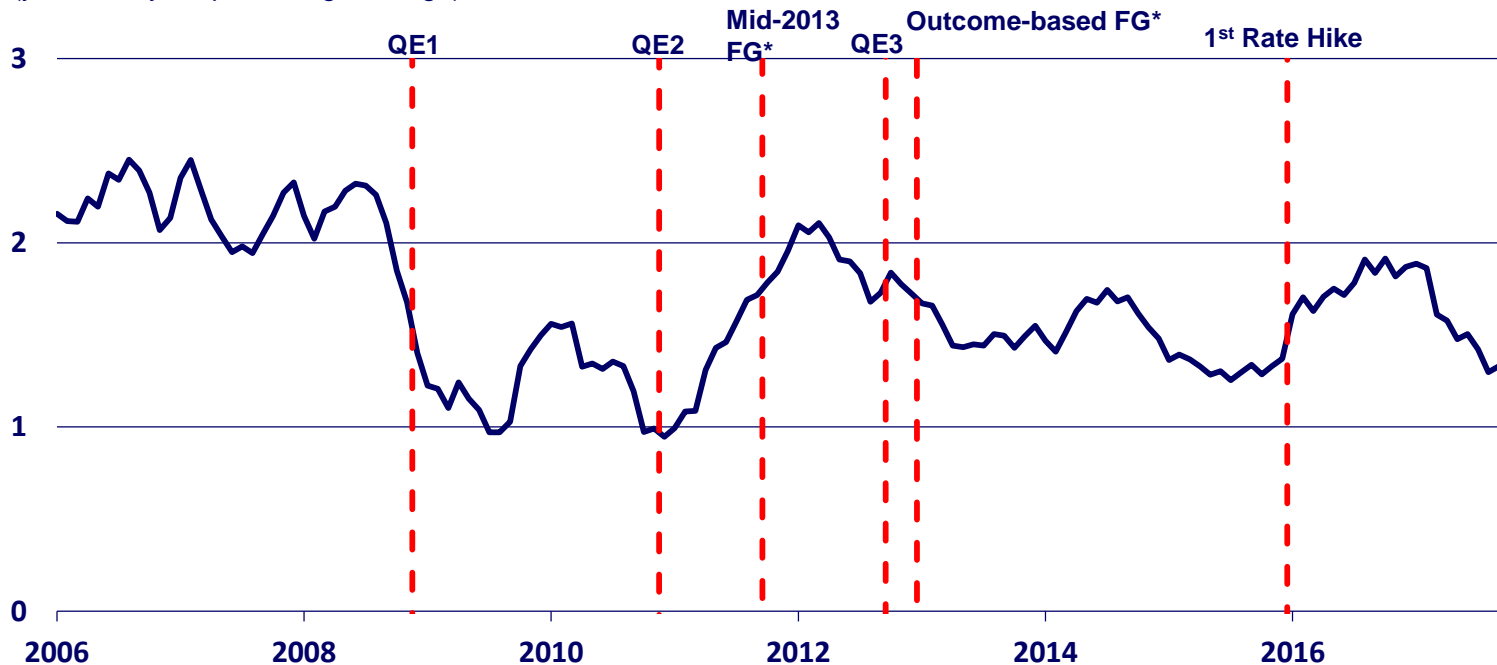


$$R_t = f(\text{state of the economy})$$

Inflation and Fed Policies

Core PCE Inflation

(year-over-year percentage change)

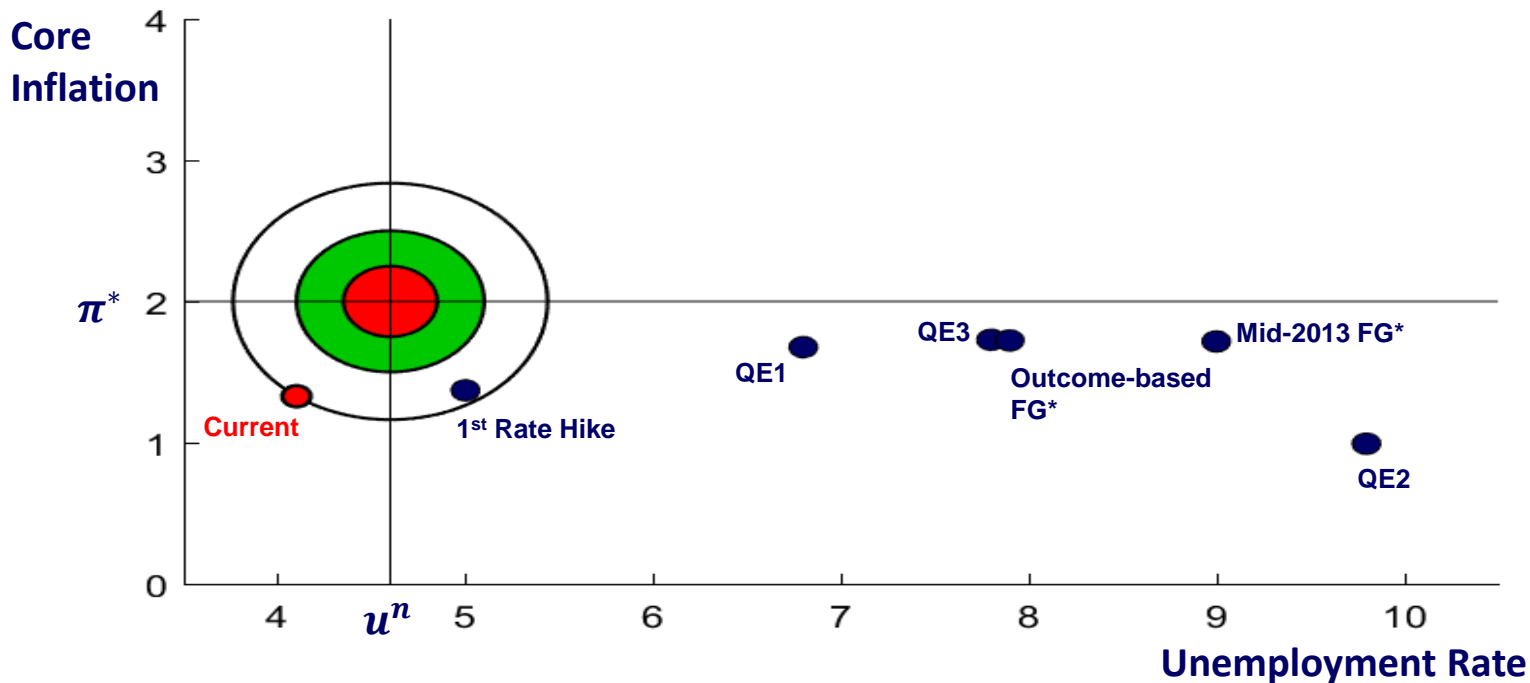


FG – forward guidance.

Source: Bureau of Economic Analysis from Haver Analytics

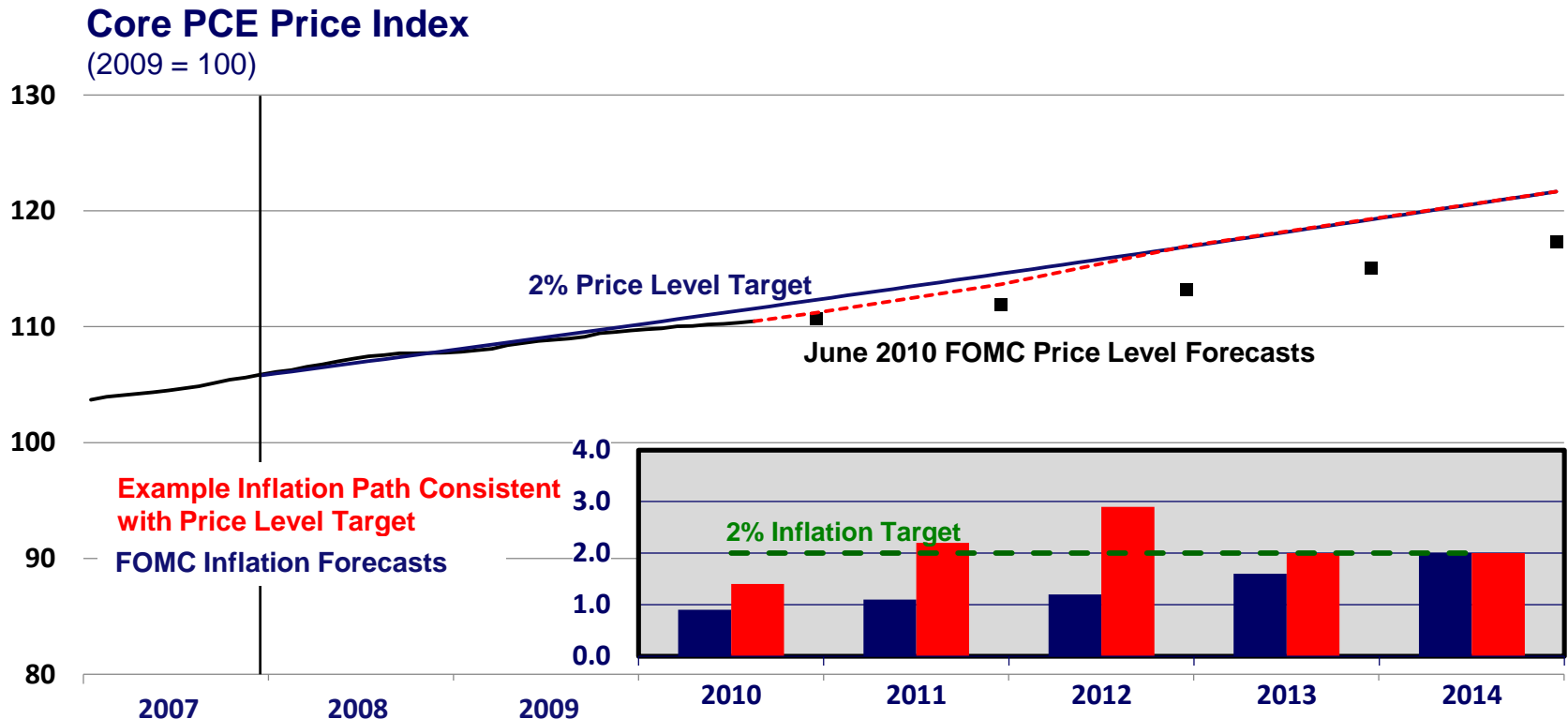
Dual Mandate and Fed Policies

Loss Function: $L = (\pi - \pi^*)^2 + (u - u^n)^2$
(percentage deviation from target)



*FG** - forward guidance. Natural rate of unemployment taken from the median of the long-run Projections in the FOMC Summary of Economic Projections, currently equal to 4.6%. Inflation target of 2% was first announced in January 2012. Source: Federal Open Market Committee, Bureau of Economic Analysis and Bureau of Labor Statistics from Haver Analytics

State-contingent Price Level Targeting as of August 2010



FOMC projections are the median of the FOMC participants' forecasts as reported in the June 2010 Summary of Economic Projections. Source: Federal Open Market Committee and Bureau of Economic Analysis from Haver Analytics