

How and Why

Alberto G. Musalem
President and CEO, Federal Reserve Bank of St. Louis

The London School of Economics and Political Science
London, U.K.
Sept. 29, 2026

The text is as prepared for delivery.

Good evening. It is an honor and a joy to be back at LSE, my alma mater. In these classrooms, more than 35 years ago, I first learned about some of the topics that I will cover today. I am grateful to Ricardo Reis for inviting me and to the Centre For Macroeconomics for hosting this event. Before beginning, let me stress that these are my views, and not necessarily those of my Federal Open Market Committee (FOMC) colleagues.¹

There is a lively debate in the U.S. about how and what the Federal Reserve should communicate about its monetary policy.² In my view, a central bank should communicate how it turns incoming information into policy. Note that I'm not talking about forward guidance of a specific policy path, but rather the framework for how and why policy is determined. A clearly communicated framework yields smoother monetary policy transmission, better economic outcomes and stronger democratic legitimacy.

In the Q&A that follows my remarks, I will be glad to elaborate on how my communication philosophy applies to current U.S. economic conditions.

Three Kinds of Central Bank Talk

A central bank can communicate three things. It can share its forecast, meaning how it expects economic conditions to evolve. It can promise a policy rate path, meaning where it intends to set interest rates months ahead. And it can explain how the policy rate will be adjusted in response to changing economic conditions to achieve policy goals.³

¹ I would like to thank Riccardo DiCecio, Bill Dupor and David Wheelock for assistance in preparing these remarks.

² The debate is live within the FOMC itself. Several FOMC participants have recently addressed monetary policy communication in speeches (e.g., Warsh, 2026 and Waller, 2026) and interviews (e.g., Barkin on Bloomberg on Aug. 31; Goolsbee on Bloomberg on Aug. 28; Musalem on CNBC on Aug. 20; Schmid on Bloomberg on Aug. 27; and Williams on Reuters on Aug. 3).

³ The forecast/path/rule distinction is the Delphic-versus-Odyssean taxonomy of Campbell et al. (2012). On communicating the systematic rule rather than the path, see Taylor (1993) and Lacker and Plosser (2024).

This distinction is important. Promising a specific interest rate path is what earned forward guidance a bad name. The framework that I will describe is closer to the third kind of communication. It means telling the public not when the central bank will act or exactly what it will do, but how and why it will decide.

What a Framework Might Say

Let me describe what I have in mind. I have advocated for parts of it before, including in my first speech in this job.⁴

The FOMC maintains a public “Statement on Longer-Run Goals and Monetary Policy Strategy.”⁵ It establishes several elements of the framework. For example, it sets a 2% inflation target.⁶ It indicates that the federal funds rate is the Committee’s primary tool for implementing monetary policy, while the balance sheet is a complementary tool, reserved for unusual conditions.⁷ It also highlights that longer-run inflation expectations anchored at the 2% inflation target are important for delivering both dual mandate goals of maximum employment and price stability.

When the two goals come into conflict, the statement points to a balanced approach, weighing how far employment and inflation are from their respective goals and the horizons over which each is likely to return to target.

A useful additional element would be the horizon over which the FOMC expects to achieve mandate-consistent levels of inflation and employment. I consider an 18-month horizon reasonable. This is long enough to avoid constant readjustments of the policy stance, and short enough that we can be held to it. Specifying a horizon also helps maintain a forward-looking monetary policy posture.

The heart of a framework is clarity about how policy will respond to economic conditions. Rather than claim to know a single policy path in advance, a well-articulated framework should include a small number, perhaps two or three, of the most likely scenarios for inflation and employment, estimates of how probable each scenario is, and descriptions of how the policy rate would respond under each one. As data and other information arrive, the scenarios and the likelihood of each are updated. This is a forward-looking approach to decide policy as the world reveals itself.

⁴ I first proposed the communications framework described below in Musalem (2024).

⁵ The current statement was amended effective Aug. 22, 2025, and was reaffirmed effective Jan. 27, 2026. See Federal Open Market Committee (2025).

⁶ Inflation is measured by the year-on-year percent change in the personal consumption expenditures (PCE) price index.

⁷ Several of these elements were affirmed in Chairman Warsh’s recent Jackson Hole remarks: a firm 2% target, the change in the PCE price index as the measure, and the short-term rate as the predominant tool, with unconventional tools used sparingly. See Warsh (2026).

The Communications Vehicle Is Flexible — The Framework Is the Point

None of this requires settling on a particular communications device. A reasonable framework can be conveyed in several ways.⁸

What a central bank should avoid, in my view, are communications and actions with no framework to make sense of them.⁹ It should also avoid exiting the conversation altogether. A central bank that does not explain how or why it makes policy decisions leaves the public to guess whether it is following a clear and reasonable approach or simply exercising discretion in setting policy. An unexplained policy risks being interpreted as discretion, which can be costly in terms of inflation.

The central bank's reputation can substitute in part for an announced framework. Given a long and stable track record, people can partly infer a central bank's systematic response to economic conditions from its actions. However, a credible record takes a long time to build.

Also, inference through a track record cannot reveal how a central bank would respond in situations that have never arisen. It is in those contingencies that anchoring of expectations matters the most.

A clearly communicated framework turns a pattern that the public must otherwise infer from a track record into a commitment. Commitment, not silence, delivers the gains that I will now describe.

Smoother Transmission: Stepping Out of the Hall of Mirrors

The first advantage of a clearly communicated framework is a smoother transmission of monetary policy to the economy. I am sympathetic to the argument that a central bank should let financial markets react to economic data and other signals rather than to the central bank's communications. The question is how to best achieve that goal.

Markets react to data through their expectations of how the central bank will respond to macroeconomic developments. The price of a Treasury bond reflects a forecast of the future policy path.¹⁰ So when a central bank keeps its framework to itself, it does not free up markets

⁸ Currently, the Fed communicates in a variety of ways. Three of its documents are FOMC products: the "Statement on Longer-Run Goals and Monetary Policy Strategy," the post-meeting policy statement and the quarterly Summary of Economic Projections. Around these, the Chair holds a press conference after FOMC meetings and presents a semiannual Monetary Policy Report to Congress; individual policymakers give speeches, testimony and interviews throughout the year.

⁹ Engstrom (2026) finds that market and survey expectations adjust too slowly away from the dot-plot projections, generating predictable forecast errors — evidence that projections published without an explaining framework can anchor expectations counterproductively.

¹⁰ A long-term yield has two components: the average expected future short-term rate and a term premium that compensates holders for interest-rate risk. A clear framework positively affects both components.

to focus on data and other information. Rather, it forces market participants to guess how the central bank will assess the state of the economy and react to it.

Guessing adds noise, which results in added premiums for uncertainty. This shows up as higher and more volatile long-term interest rates and, ultimately, higher financing costs for households and businesses.¹¹

Communicate the framework and the opposite happens. Markets take the incoming information and apply the central bank's response. Financial conditions then adjust in anticipation of the Fed's reaction, tightening as the economy runs hot and easing as it cools. The intended policy stance takes hold smoothly in real time with lower risk premiums and volatility. This lowers financing costs for households and businesses, on average.

Conveying the framework also answers the concern that central bank communication turns markets into a hall of mirrors, in which the Fed ends up reading market prices that only echo its own words back to it.¹² The worry is real, but it is not an indictment of all forms of communication. The echo comes from broadcasting a forecast. Announce a view of the economy, and markets reflect it back.

Communicating a framework, not a forecast, is the solution. It leaves markets to supply their own reading of the economy and apply a framework they understand. There is no reflection to mistake for a signal, because the signal about the economy comes from the market, not from the Fed.

Better Economic Outcomes: The Importance of Managing Expectations

The second advantage of a clearly communicated framework is better economic outcomes from managing expectations. Monetary policy does not work through today's interest rate alone. It also works by affecting expectations about the future.

A 30-year mortgage rate, or a company's decision to build a factory, depends far less on the current overnight interest rate than on where people expect rates will be for years to come.¹³ Expectations are a powerful policy lever.

¹¹ Gürkaynak et al. (2005) show that communication, distinct from the current rate move, drives longer-maturity yields. Bundick et al. (2021) show that clarity about the path compresses the term premium, so withdrawing it tends to widen premiums and add volatility. Kohn and Sack (2004) find the same in normal times, when FOMC statements and congressional testimony move market interest rates by signaling both near-term policy and the Committee's outlook.

¹² Morris and Shin (2002, 2005) show that public disclosure can crowd out the private information otherwise aggregated in prices. Stein and Sunderam (2018) model a central bank that reads a bond market it simultaneously moves. Communicating the rule rather than a forecast is what prevents the echo.

¹³ Policy operates through expectations of the future path. Woodford (2005) makes managing those expectations the core of effective policy; Eggertsson and Woodford (2003) show that at the zero lower bound, when the current rate cannot fall further, a credible commitment to history-dependent policy restores traction.

If the public understands the framework, meaning how the Fed will respond as the economy evolves, then private expectations tend to line up with the Fed's intentions on their own. The Fed need not jolt markets by surprise. A well-understood framework anchors inflation expectations and improves the trade-off between inflation and employment, making the public better off.¹⁴

There is still a deeper benefit from a clearly communicated framework. Economies can be vulnerable to self-fulfilling beliefs. A fear of high inflation can help bring it about. A slide toward deflation can feed on itself. A clearly understood framework is a powerful safeguard because the public already knows how the central bank would respond before such a spiral can take hold.¹⁵

Much of the stability the public takes for granted comes not from any single policy decision, but from the public's confidence that it knows how and why future decisions will be made.

Accountability: Stronger Democratic Legitimacy

The third advantage of a clearly communicated framework is accountability. The Federal Reserve's monetary policy is deliberately insulated from day-to-day politics for good reasons. Higher and more volatile inflation tends to be the outcome when a central bank is subject to short-run political pressure.

In the U.S., monetary policy independence is a grant of authority from Congress and, ultimately, from the public. In a democracy, delegated power carries an obligation to explain how and why that power is used.

A framework is what makes that explanation possible, allowing the public and their representatives to verify whether the central bank is following its stated policy strategy and to hold it to account when it strays.

Judging monetary policy by mandate-consistent outcomes is not enough.¹⁶ Without a framework that articulates the how and the why, there is no way to tell sound policy strategy from luck or improvisation. A predictable, explained framework is not a constraint on a central

¹⁴ Under discretion a central bank forfeits the expectations channel and accepts a worse inflation–output trade-off — the “stabilization bias” of Clarida et al. (1999), which commitment to a rule mitigates. Blinder et al. (2008) survey the evidence that communication improves predictability and effectiveness.

¹⁵ Chari et al. (1998) and Albanesi et al. (2003) show that discretion can admit multiple equilibria selected by expectations; Eggertsson (2006) shows the mirror-image deflation trap at the zero bound, which a credible commitment can rule out.

¹⁶ The classic case for rules over discretion: Kydland and Prescott (1977) on the time inconsistency of optimal plans, and Barro and Gordon (1983) on the resulting inflation bias.

bank. It is part of what makes an institution run by unelected officials democratically legitimate.¹⁷

Conclusion

To conclude, the communications choice before us is not between noisy overpromising and stoic silence. It is between leaving the public to guess how the central bank thinks and telling them.

Communicating a framework delivers smoother monetary policy transmission because markets can price the state of the economy using a map from scenarios to policy. It delivers better economic outcomes because expectations coordinate around the central bank's intentions. And it delivers stronger democratic legitimacy because the public can hold a powerful institution accountable to a policy strategy that it has stated out loud.

The most important thing a central bank can tell the public is not what it will do at the next few meetings. It is how and why it will decide as the economy unfolds. A framework is the rare promise that is entirely within the central bank's control.

Thank you.

¹⁷ On rules and accountability, see Taylor (1993) and Lacker and Plosser (2024). On credibility as inferred from conduct rather than asserted, see Backus and Driffill (1985) and Barro (1986). Only costly action, not talk, distinguishes a committed central bank from a merely vocal one. That is why judging a central bank by economic outcomes cannot substitute for a stated strategy.

References

- Albanesi, Stefania, V. V. Chari, and Lawrence J. Christiano. "[Expectation Traps and Monetary Policy](#)." *Review of Economic Studies*, Vol. 70, Issue 4, October 2003, pp. 715-741.
- Backus, David and John Driffill. "[Inflation and Reputation](#)." *American Economic Review*, Vol. 75, No. 3, June 1985, pp. 530-538.
- Barro, Robert J. "[Reputation in a Model of Monetary Policy with Incomplete Information](#)." *Journal of Monetary Economics*, Vol. 17, Issue 1, January 1986, pp. 3-20.
- Barro, Robert J. and David B. Gordon. "[Rules, Discretion and Reputation in a Model of Monetary Policy](#)." *Journal of Monetary Economics*, Vol. 12, Issue 1, 1983, pp. 101-121.
- Blinker, Alan S., Michael Ehrmann, Marcel Fratzscher, Jakob De Haan, and David-Jan Jansen. "[Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence](#)." *Journal of Economic Literature*, Vol. 46, No. 4, December 2008, pp. 910-945.
- Bundick, Brent, Trenton Herriford, and A. Lee Smith. "[Forward Guidance, Monetary Policy Uncertainty, and the Term Premium](#)." Federal Reserve Bank of Kansas City Working Paper No. 17-07, February 2021.
- Campbell, Jeffrey R., Charles L. Evans, Jonas D. M. Fisher, and Alejandro Justiniano. "[Macroeconomic Effects of Federal Reserve Forward Guidance](#)." *Brookings Papers on Economic Activity*, Spring 2012, pp. 1-80.
- Chari, V. V., Lawrence J. Christiano, and Martin Eichenbaum. "[Expectation Traps and Discretion](#)." *Journal of Economic Theory*, Vol. 81, Issue 2, August 1998, pp. 462-492.
- Clarida, Richard, Jordi Galí, and Mark Gertler. "[The Science of Monetary Policy: A New Keynesian Perspective](#)." *Journal of Economic Literature*, Vol. 37, No. 4, December 1999, pp. 1661-1707.
- Eggertsson, Gauti B. "[The Deflation Bias and Committing to Being Irresponsible](#)." *Journal of Money, Credit and Banking*, Vol. 38, No. 2, March 2006, pp. 283-321.
- Eggertsson, Gauti B. and Michael Woodford. "[The Zero Bound on Interest Rates and Optimal Monetary Policy](#)." *Brookings Papers on Economic Activity*, No. 1, 2003, pp. 139-235.
- Engstrom, Eric. "[Anchored to the Dot Plot: Central Bank Projections and Interest Rate Expectations](#)." Finance and Economics Discussion Series No. 2026-026, May 2026.
- Federal Open Market Committee. "[Statement on Longer-Run Goals and Monetary Policy Strategy](#)." As amended effective Aug. 22, 2025.

Gürkaynak, Refet S., Brian Sack, and Eric T. Swanson. "[Do Actions Speak Louder Than Words? The Response of Asset Prices to Monetary Policy Actions and Statements.](#)" *International Journal of Central Banking*, Vol. 1, Issue 1, May 2005, pp. 55-93.

Kohn, Donald L. and Brian P. Sack. "[Central Bank Talk: Does It Matter and Why?](#)" In *Macroeconomics, Monetary Policy, and Financial Stability*, pp. 175-206. Ottawa: Bank of Canada, 2004.

Kydland, Finn E. and Edward C. Prescott. "[Rules Rather than Discretion: The Inconsistency of Optimal Plans.](#)" *Journal of Political Economy*, Vol. 85, No. 3, June 1977, pp. 473-491.

Lacker, Jeffrey M. and Charles I. Plosser. "[The Fed Should Improve Communications by Talking about Systematic Policy Rules.](#)" In *Getting Monetary Policy Back on Track*, edited by Michael D. Bordo, John H. Cochrane, and John B. Taylor. Stanford, Calif.: Hoover Institution Press, 2024.

Morris, Stephen and Hyun Song Shin. "[Social Value of Public Information.](#)" *American Economic Review*, Vol. 92, No. 5, December 2002, pp. 1521-1534.

Morris, Stephen and Hyun Song Shin. "[Central Bank Transparency and the Signal Value of Prices.](#)" *Brookings Papers on Economic Activity*, No. 2, 2005, pp. 1-66.

Musalem, Alberto G. "[Remarks on the Economic Outlook and Monetary Policy.](#)" Remarks delivered at the CFA Society St. Louis, St. Louis, Mo., on June 18, 2024.

Stein, Jeremy C. and Adi Sunderam. "[The Fed, the Bond Market, and Gradualism in Monetary Policy.](#)" *Journal of Finance*, Vol. 73, Issue 3, June 2018, pp. 1015-1060.

Taylor, John B. "[Discretion versus Policy Rules in Practice.](#)" *Carnegie-Rochester Conference Series on Public Policy*, Vol. 39, December 1993, pp. 195-214.

Waller, Christopher J. "[The Economic Outlook and Some Comments on My Policy Communication.](#)" Remarks at the Reuters NEXT Newsmaker Interview, Washington, D.C., on Sept. 3, 2026.

Warsh, Kevin. "[In Our Time.](#)" Remarks at the Jackson Hole Economic Policy Symposium, Federal Reserve Bank of Kansas City, on Aug. 28, 2026.

Woodford, Michael. "[Central Bank Communication and Policy Effectiveness.](#)" In *The Greenspan Era: Lessons for the Future*, proceedings from the Jackson Hole Economic Policy Symposium, Federal Reserve Bank of Kansas City, 2005, pp. 399-474.