<https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy.htm>

**Review of Monetary Policy Strategy, Tools, and Communications**

Statement on Longer-Run Goals and Monetary Policy Strategy

Adopted effective January 24, 2012; as amended effective August 27, 2020

The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decision making by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.

Employment, inflation, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Monetary policy plays an important role in stabilizing the economy in response to these disturbances. The Committee's primary means of adjusting the stance of monetary policy is through changes in the target range for the federal funds rate. The Committee judges that the level of the federal funds rate consistent with maximum employment and price stability over the longer run has declined relative to its historical average. Therefore, the federal funds rate is likely to be constrained by its effective lower bound more frequently than in the past. Owing in part to the proximity of interest rates to the effective lower bound, the Committee judges that downward risks to employment and inflation have increased. The Committee is prepared to use its full range of tools to achieve its maximum employment and price stability goals.

The maximum level of employment is a broad-based and inclusive goal that is not directly measurable and changes over time owing largely to nonmonetary factors that affect the structure and dynamics of the labor market. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the shortfalls of employment from its maximum level, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments.

The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee judges that longer-term inflation expectations that are well anchored at 2 percent foster price stability and moderate long-term interest rates and enhance the Committee's ability to promote maximum employment in the face of significant economic disturbances. In order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.

Monetary policy actions tend to influence economic activity, employment, and prices with a lag. In setting monetary policy, the Committee seeks over time to mitigate shortfalls of employment from the Committee's assessment of its maximum level and deviations of inflation from its longer-run goal. Moreover, sustainably achieving maximum employment and price stability depends on a stable financial system. Therefore, the Committee's policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals.

The Committee's employment and inflation objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it takes into account the employment shortfalls and inflation deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

The Committee intends to review these principles and to make adjustments as appropriate at its annual organizational meeting each January, and to undertake roughly every five years a thorough public review of its monetary policy strategy, tools, and communication practices.

Related Information [Guide to changes in the Statement on Longer-Run Goals and Monetary Policy Strategy](https://www.federalreserve.gov/monetarypolicy/guide-to-changes-in-statement-on-longer-run-goals-monetary-policy-strategy.htm)

Guide to changes in the Statement on Longer-Run Goals and Monetary Policy Strategy

In the revised Statement on Longer-Run Goals and Monetary Policy Strategy shown below, **bold red** text shows additions and ~~struck-through~~ text shows deletions relative to the statement the Committee issued on January 29, 2019. Note that the discussion of the employment and inflation goals have been separated into two paragraphs and their order reversed relative to the January 2019 statement. To improve readability, these changes are not marked with bold red text or struck-through text.

**Statement on Longer-Run Goals and Monetary Policy Strategy**  
Adopted effective January 24, 2012; as amended effective ~~January 29, 2019~~ **August 27, 2020**

1. The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decisionmaking by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.

2. **Employment,** inflation, ~~employment,~~ and long-term interest rates fluctuate over time in response to economic and financial disturbances. **Monetary policy plays an important role in stabilizing the economy in response to these disturbances. The Committee’s primary means of adjusting the stance of monetary policy is through changes in the target range for the federal funds rate.** **The Committee judges that the level of the federal funds rate consistent with maximum employment and price stability over the longer run has declined relative to its historical average. Therefore, the federal funds rate is likely to be constrained by its effective lower bound more frequently than in the past. Owing in part to the proximity of interest rates to the effective lower bound, the Committee judges that downward risks to employment and inflation have increased.**[**What changes in the economy do the revisions to the Statement on Longer-Run Goals and Monetary Policy Strategy reflect?**](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#3) **The Committee is prepared to use its full range of tools to achieve its maximum employment and price stability goals.**[**What other tools besides changing the level of the federal funds rate does the Federal Reserve have to achieve its maximum employment and price stability objectives?**](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#4) ~~Moreover, monetary policy actions tend to influence economic activity and prices with a lag. Therefore, the Committee’s policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee’s goals.~~

3. The maximum level of employment is **a broad-based and inclusive goal that is not directly measurable and changes over time owing**[**Why does the new Statement on Longer-Run Goals and Monetary Policy Strategy emphasize that maximum employment is a broad-based and inclusive goal?**](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#5) largely ~~determined by~~ **to** nonmonetary factors that affect the structure and dynamics of the labor market. ~~These factors may change over time and may not be directly measurable.~~ Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee’s policy decisions must be informed by assessments of the **shortfalls of employment from its**[**How has the review altered how the Federal Reserve will pursue its maximum employment objective?**](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#6) maximum level ~~of employment~~, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments. ~~Information about Committee participants’ estimates of the longer-run normal rates of output growth and unemployment is published four times per year in the FOMC’s Summary of Economic Projections. For example, in the most recent projections, the median of FOMC participants’ estimates of the longer-run normal rate of unemployment was 4.4 percent.~~

4. The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve’s statutory mandate. The Committee ~~would be concerned if inflation were running persistently above or below this objective. Communicating this symmetric inflation goal clearly to the public helps keep~~ **judges that** longer-term inflation expectations ~~firmly~~ **that are well** anchored~~, thereby~~ **at 2 percent** foster~~ing~~ price stability and moderate long-term interest rates and ~~enhancing~~ **enhance** the Committee’s ability to promote maximum employment in the face of significant economic disturbances. **In order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.**[**Has the Federal Reserve's inflation objective changed? Why is the Federal Reserve interested in achieving inflation that averages 2 percent over time?**](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#7)

5. **Monetary policy actions tend to influence economic activity, employment, and prices with a lag.** In setting monetary policy, the Committee seeks **over time** to mitigate **shortfalls of employment from the Committee's assessment of its maximum level and** deviations of inflation from its longer-run goal ~~and deviations of employment from the Committee’s assessments of its maximum level~~. **Moreover, sustainably achieving maximum employment and price stability depends on a stable financial system. Therefore, the Committee’s policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee’s goals.**[**What role does monetary policy play in achieving a stable financial system?**](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#8)

6. ~~These~~ **The Committee’s employment and inflation** objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it ~~follows a balanced approach in promoting them, taking~~ **takes** into account the ~~magnitude of the~~ **employment shortfalls and inflation** deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

7. The Committee intends to ~~reaffirm~~ **review** these principles and to make adjustments as appropriate at its annual organizational meeting each January**, and to undertake roughly every five years a thorough public review of its monetary policy strategy, tools, and communication practices**[**Will the Federal Reserve be conducting broad reviews of its policy strategy in the future?**](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#11).

Q&As

Related Information

[Guide to changes in the Statement on Longer-Run Goals and Monetary Policy Strategy](https://www.federalreserve.gov/monetarypolicy/guide-to-changes-in-statement-on-longer-run-goals-monetary-policy-strategy.htm)

[What were the goals of the Federal Reserve's review?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#1)  
[Why is the Statement on Longer-Run Goals and Monetary Policy Strategy important and why did it need to be revised?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#2)  
[What changes in the economy do the revisions to the Statement on Longer-Run Goals and Monetary Policy Strategy reflect?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#3)  
[What other tools besides changing the level of the federal funds rate does the Federal Reserve have to achieve its maximum employment and price stability objectives?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#4)  
[Why does the new Statement on Longer-Run Goals and Monetary Policy Strategy emphasize that maximum employment is a broad-based and inclusive goal?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#5)  
[How has the review altered how the Federal Reserve will pursue its maximum employment objective?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#6)  
[Has the Federal Reserve's inflation objective changed? Why is the Federal Reserve interested in achieving inflation that averages 2 percent over time?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#7)  
[What role does monetary policy play in achieving a stable financial system?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#8)  
[How do the changes to the Statement on Longer-Run Goals and Monetary Policy Strategy affect the way that monetary policy is conducted?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#9)  
[What role did perspectives outside of the Federal Reserve System play in shaping the revised Statement on Longer-Run Goals and Monetary Policy Strategy?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#10)  
[Will the Federal Reserve be conducting broad reviews of its policy strategy in the future?](https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-qas.htm#11)

What were the goals of the Federal Reserve's review?

The Federal Reserve's review involved taking a broad and open-minded look at the monetary policy strategy, tools, and communications practices it uses to pursue its congressionally-assigned goals of maximum employment and price stability, known as the dual mandate. Because the economy is always evolving, the Federal Reserve's strategy for achieving its goals must adapt to meet the new challenges that arise. The purpose of the review was to take stock of lessons learned since 2012—when Federal Open Market Committee (FOMC) first issued its Statement on Longer-Run Goals and Monetary Policy Strategy—and to identify any further changes to its strategy, tools, and communication practices that could enhance the Federal Reserve's ability to achieve its maximum employment and price stability objectives.

Why is the Statement on Longer-Run Goals and Monetary Policy Strategy important and why did it need to be revised?

The Statement on Longer-Run Goals and Monetary Policy Strategy is important because it explains how the FOMC interprets its congressional mandate, articulates its approach to monetary policy, and serves as the foundation for its policy actions. The new statement has many of the same core elements with the previous statement, which was a major achievement when it was first issued in 2012 and has served the economy well. However, the economy has evolved in important ways since 2012, and the changes in the new statement reflect these developments.

What changes in the economy do the revisions to the Statement on Longer-Run Goals and Monetary Policy Strategy reflect?

One important change is that the general level of interest rates has fallen, both here in the United States and around the world. This decline has profound implications for monetary policy. With interest rates generally running closer to their effective lower bound even in good times, the FOMC has less room to cut the policy interest rate when needed to support the economy. It also means that the federal funds rate is likely to be constrained by the effective lower bound more frequently than in the past. Another important change is that prior to the pandemic we witnessed a record long expansion in which the labor market was very strong and did not trigger a significant rise in inflation. The gains in the labor market were widely shared across society, and thus the revised statement reflects a greater appreciation that the benefits of a strong labor market may be sustained without triggering an unwelcome rise in inflation.

What other tools besides changing the level of the federal funds rate does the Federal Reserve have to achieve its maximum employment and price stability objectives?

Adjustments in the federal funds rate are the primary means for altering the stance of monetary policy in response to changing economic circumstances. The Committee may deploy other tools as necessary to foster its objectives, including forward guidance about future settings of the federal funds rate and balance sheet policies. The Federal Reserve also relies on its emergency lending powers authorized by Congress to help limit the economic damage from crises such as the one caused by the COVID-19 pandemic. The Federal Reserve is committed to using its full range of tools to support the U.S. economy as necessary and will do all it can to achieve its maximum employment and price stability goals.

Why does the new Statement on Longer-Run Goals and Monetary Policy Strategy emphasize that maximum employment is a broad-based and inclusive goal?

The role of monetary policy is to support a strong, stable economy that benefits all Americans. The characterization of our maximum employment goal as broad-based and inclusive clarifies that the Federal Reserve seeks to foster economic conditions that benefit everyone. It also stresses the importance of understanding how various communities are experiencing the labor market when assessing the degree to which employment in the economy as a whole is falling short of its maximum level.

How has the review altered how the Federal Reserve will pursue its maximum employment objective?

The previous expansion demonstrated that a strong labor market can be sustained without inducing an unwanted increase in inflation. To the contrary, when unemployment fell to levels that were previously thought to be unsustainable, the labor market proved remarkably adaptable, bringing many benefits to families and communities that all too often had been left behind. Accordingly, the new Statement on Longer-Run Goals and Monetary Policy strategy only refers to "shortfalls of employment from its maximum level" rather than the "deviations from its maximum level" used in the previous statement. This change signals that high employment, in the absence of unwanted increases in inflation or the emergence of other risks that could impede the attainment of the Committee's goals, will not by itself be a cause for policy concern.

Has the Federal Reserve's inflation objective changed? Why is the Federal Reserve interested in achieving inflation that averages 2 percent over time?

The Federal Reserve's longer-run inflation objective remains 2 percent. The revised Statement on Longer-Run Goals and Monetary Policy Strategy reflects the view that this objective can best be met by seeking to achieve inflation that averages 2 percent over time. If inflation runs below 2 percent following economic downturns but never moves above 2 percent even when the economy is strong, then over time inflation will average less than 2 percent. Inflation averaging less than 2 percent over time can lead to an unwelcome fall in longer-term inflation expectations, which in turn can pull actual inflation lower, resulting in an adverse cycle of lower inflation and inflation expectations. With lower expected inflation, the nominal level of interest rates will be lower too, leaving less room for the FOMC to cut interest rates when needed to support the economy in a downturn. By seeking inflation that averages 2 percent over time this will help ensure longer-run inflation expectations do not drift down and remain well anchored at 2 percent. For these reasons, following periods when inflation has been running below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.

What role does monetary policy play in achieving a stable financial system?

Achieving a stable macroeconomic environment in which shortfalls from maximum employment are eliminated and inflation is running at 2 percent, and expected to remain so, is supportive of a stable financial system. At the same time, the stability of the financial system is necessary for the sustained achievement of our statutory goals of maximum employment and price stability. Therefore, as indicated in the Statement on Longer-Run Goals and Monetary Policy Strategy, risks to the financial system are an important factor in the FOMC's policy decisions.

How do the changes to the Statement on Longer-Run Goals and Monetary Policy Strategy affect the way that monetary policy is conducted?

The revisions in many ways are consistent with the way that the Federal Reserve has been conducting policy in recent years and reflect the strong commitment the Federal Reserve has to achieving its goals. There is also much in the way of continuity with the previous statement. However, there are also important changes. The most concrete implications of these will be easiest to see in good times, after the economy has recovered from the disruption caused by the COVID-19 pandemic. In particular, inflation should not run persistently below our objective as we seek to achieve inflation that averages 2 percent over time. Similarly, when the economy is robust, high employment, in the absence of unwanted increases in inflation or the emergence of other risks that could impede the attainment of the Committee's goals, will not by itself be a cause for policy concern.

What role did perspectives outside of the Federal Reserve System play in shaping the revised Statement on Longer-Run Goals and Monetary Policy Strategy?

An important pillar of the review were 14 *Fed Listens* events in 2019 that engaged a wide range of organizations—employee groups and union members, small business owners, residents of low- and moderate-income communities, retirees, and others—to hear about how monetary policy affects peoples' daily lives and livelihoods. Another event was held in May 2020 to hear about the effects of the COVID-19 pandemic on communities around the United States. These events provided valuable feedback on monetary policy. One of the clear messages that resulted from these events was that the strong labor market that prevailed before the pandemic was generating employment opportunities for many Americans who had not found jobs readily available in the past. This message underscored the importance of achieving and sustaining a strong job market, particularly for people from low- and moderate-income communities. The revisions to the statement, particularly those pertaining to our maximum employment objective, very much reflect this message.

Will the Federal Reserve be conducting broad reviews of its policy strategy in the future?

The Federal Reserve's review proved to be an effective platform for strengthening the connection between the Federal Reserve and its core constituency, the American people. Periodic reviews of this sort can enhance the Federal Reserve's transparency and accountability and thus are good institutional practice. Moreover, because the economy is constantly evolving, periodic reviews can be an effective way to reflect on how changes to the economy affect monetary policy and identify possible changes in policy strategy, tools, or communication practices that could enhance the Federal Reserve's ability to achieve its maximum employment and price stability objectives. Therefore, as the Statement on Longer-Run Goals and Monetary Policy Strategy indicates, the Federal Reserve plans to undertake a thorough public review of its monetary policy strategy, tools, and communication practices roughly every five years.