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POLICY BRIEF

Reforming the Federal Reserve: Will Kevin Warsh Make the Fed Transparent and Accountable?

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The legitimacy of the Federal Reserve within the constitutional system of checks and balances depends on whether its monetary policymaking is transparent and accountable. Kevin Warsh, who if confirmed will become chairman of the Federal Reserve Board of Governors and the Federal Open Market Committee (FOMC) on May 1, has proposed a definite reform agenda for monetary policy that raises this issue directly. Whether those reforms strengthen the Federal Reserve depends on whether they make monetary policymaking more transparent and accountable within the US constitutional system of checks and balances. Evaluating the Warsh agenda therefore requires identifying where transparency and accountability must apply: (1) deliberation, which is the debate within the FOMC over proposed reforms, (2) the framework, which guides monetary policy decisions, and (3) accountability, which depends on the communication that allows Congress and the public to evaluate the monetary policy decisions.

First, the FOMC must openly debate the merits of the Warsh agenda and either adopt it or articulate a preferred alternative. Transparency and accountability require that the debate be visible to the public. For that to happen, the FOMC should release the transcript of its meetings after a short delay, perhaps three months. The current practice of releasing transcripts after five years imposes excessive secrecy.

Second, beyond openly evaluating Warsh's proposed reforms, the FOMC should resolve to conduct monetary policy within a framework based on a consistent rule rather than on discretionary judgments. The current language of discretion allows the FOMC chairman to attribute all instability to some special factor external to monetary policy. If instability in the economy occurs, either inflation or recession, the FOMC should engage in an open debate with the public, including academic economists and congressional staff, about whether the adopted rule is at fault.

Finally, accountability is based on meaningful congressional oversight, which requires that monetary policy be communicated in a simpler and more coherent way. More generally, the Fed is

chartered by Congress with a mandate to achieve stable prices, maximum employment, and moderate long-term interest rates. In principle, Congress exercises oversight powers over the Fed. The FOMC has made monetary policy so complicated, however, that understanding how the FOMC exercises its power to control economic activity in carrying out its mandate is a formidable task. Certainly, congressmen who are not trained economists would be at a loss. Meaningful oversight by congressmen and their staff requires simplification of the procedures for the implementation of monetary policy. It also requires communication through a conceptual framework that places individual policy actions in the context of the underlying consistency of monetary policy. The current language of discretion, which justifies decisions about the funds rate in terms of near-term forecasts of the economy, offers no objective way of assessing policy considered as a strategy for achieving congressionally mandated objectives.

Warsh has stated a willingness to engage in such a discussion about Fed transparency and accountability. At a Hoover Institution Conference session entitled "The Search for a Nominal Anchor," he addressed the question of what constitutes the nominal anchor. Warsh directed attention to the nature of the monetary standard with this statement: "We should be able to agree that that the answer to this question has little to do with the latest data from the US government."[1] Warsh wrote:

> We need to think anew about fundamental questions. What is inflation? What causes it? Is the central bank responsible for it or just a bystander? . . . It's high time we establish more robust frameworks, especially given the policy mistakes and the inflation damage of the recent period. . . . Monetary policy has something to do with money. . . . If one were to do a search of FOMC transcripts, the paucity of references speaks volumes about what most policymakers think about money and its relevance to the Fed.
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> Absent finding a nominal anchor, absent developing a rigorous new framework, I'm afraid our profession is left with some puzzling contradictions. . . . Is it right for a central bank to take credit for a soft landing if it does not take responsibility for the inflation that preceded it?
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> At the time [of the Great Financial Crisis] we policymakers described QE [quantitative easing] as a key, complementary tool in the conduct of monetary policy. . . . But now . . . the Fed retains a $7 trillion plus balance sheet. And we are told by policymakers, curiously, that the asset purchases have nothing to do with monetary policy. I find it a puzzling contradiction. Either it is monetary policy or it's not.[2]

The remainder of this policy brief applies the criteria of the Fed's transparency and accountability to the reform agenda associated with Kevin Warsh. It first examines what his public statements suggest about the monetary policy framework he might promote as chairman of the FOMC. It then considers how such a framework might guide policy in the face of potential economic shocks in AI and compares it with alternative rule-based approaches used in the past. Finally, it considers what changes in the Fed's institutional culture would be required for a rules-based framework to be implemented transparently and accountably.

Divining Warsh's Preferred Policy Framework

What is Warsh likely to promote as a desirable framework for monetary policy? Consider his recent commentary in *The Wall Street Journal*:

> The administration's regulatory and tax policies are well-timed. The deregulatory agenda, the most significant since President Ronald Reagan's, has begun to liberate households and businesses from the dictates of Washington's bureaucracy. Meanwhile, the new tax bill, which the president signed in July, has already spurred massive new capital investments, including in high-value manufacturing and data centers. The president's policies have resulted in more than $5.4 trillion of private capital investment in the U.S. this year.
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> The benefits of the American juggernaut are yet to be realized fully. Among the chief obstacles is the Fed. The world is moving faster, yet the Fed's leaders are moving slower. . . . The Fed should discard its forecast of inflation in the next couple years. . . . AI will be a significant disinflationary force, increasing productivity and bolstering American competitiveness. Productivity should drive significant increases in real take-home wages. . . . Fundamental reform of monetary and regulatory policy would unlock the benefits of AI to all Americans. The economy would be stronger. Living standards would be higher. Inflation would fall further. And the Fed would have contributed to a new golden age.[3]

What about the FOMC's control of inflation? Warsh wrote:

> The Fed should re-examine its great mistakes that led to the great inflation. It should abandon the dogma that inflation is caused when the economy grows too much and workers get paid too much. Inflation is caused when government spends too much and prints too much money. Money on Wall Street is too easy, and credit on Main Street is too tight.[4]

Taken together, these statements reflect the supply-side economics of how President Donald Trump's policies of deregulation and tax cuts will cause a reinvigoration of real growth without inflation. It is unclear, however, how Warsh would discipline the FOMC's rule to ensure price stability. First, it is unclear whether he confuses money and credit. Second, the statement provides no substance about how the rule followed by the FOMC disciplines money creation to make it consistent with price stability.

Warsh's views align with a school of thought popular in the early 1980s: supply-side economics. This view emphasizes that expanding the economy's productive capacity, rather than restraining demand, is the key to controlling inflation. Judy Shelton, senior fellow at the Independent Institute and early adviser to President Trump, emphasized a monetary policy that would encourage supply-side-driven growth:

> President Trump makes a lot of sense when he talks about the perversity of good news being bad news. And that's because the Fed responds to reports of good growth and strong

> economic activity by threatening to raise interest rates because the Fed's model is that's the only way to fight inflation to try to curtail demand and it turns out that the better way to fight inflation is to increase supply. So if you really wanted a model that accommodated a supply side growth agenda instead of restricting capital and providing access to capital to small and medium sized businesses so they can hire people and produce more output and increase supply and that's the way you equilibrate demand and supply in an economy and have stable prices. So, for the Fed to punish workers who in most cases just want to keep up with the inflation is unfair but unequal. Meanwhile the people on Wall Street are making a bundle because they already own financial assets.[5]

Derek Tang, partner of ex-governor of the Board of Governors Larry Meyer at Monetary Policy Analytics, conjectured on how Warsh's supply-side views would influence his behavior as FOMC chair:

> The benefit of a doubt will be given by Warsh . . . for policy easing upon signs resembling productivity and deregulatory-driven growth, especially if coinciding with AI investment and deployment. . . . The productivity wedge is key to a legitimate rationale for easing. "Productivity gains are the predecessor to wage gains." Warsh noted recently. . . . "You're going to be late easing" Warsh warned, if failing to "realize the country is able to have non-inflationary growth faster" because a policymaker is "backward looking" when using data to see "whether these productivity gains are real, whether the potential growth rate of the economy, instead of 2%, is 3%." Policymakers "shouldn't be relying on data from [BLS and Commerce], they need to innovate. . . ."[6]

Such statements probably underpin the comment by Stephen Stanley, chief US economist at Santander US Capital Markets: "Financial market participants remain convinced that when Kevin Warsh assumes the Chairman's seat in May, he will press for aggressive rate cuts, regardless of what the economic data point to."[7]

These interpretations of Warsh's views raise a broader question about the framework he would use to guide monetary policy. To understand how Warsh is likely to implement a "more robust framework,"[8] it is important to appreciate that he would implement it in the same kind of spirit that has motivated the FOMC's use of discretion to communicate. Warsh wrote:

> In recent years, some commentators and academics seek to follow fixed monetary policy rules. The dominant view, however, purports to criticize adherence to preset policy rules. Most favor reliance on policymakers' discretion. I find it a bit puzzling, then, how to reconcile the widespread preference for policymaker discretion with the eagerness to follow a single, precise, unyielding inflation target as a key policy determinant. . . . Central bankers themselves are more recognizable public figures than ever, which makes their profiles unrecognizable to their predecessors. The Fed rightfully played an outsized role

> in the crisis. The trend continues. The Fed is involved more directly in fiscal policy, credit allocation, and management of banking and finance than we would have expected or countenanced years ago. If the Fed's imprint in the government, economy, and financial sector remains large and permanent, then it strikes me as imprudent to solve for a broader remit by subjecting policy to a single, precise, unyielding, inflation target.[9]

The current leadership of Chair Jerome Powell provides a preliminary blueprint. One can infer from statements at Powell's press conferences that he understands his framework for monetary policy as treating low unemployment and 2 percent inflation as independent objectives. He goes from meeting to meeting and, based on near-term forecasts of unemployment and inflation, decides which objective to prioritize. With benign forecasts for inflation, he has focused on the labor market with three funds rate reductions in 2025. Powell's forecasts of unemployment and inflation, however, will be heavily influenced by evidence on how AI is affecting markets and whether that justifies continued lower funds-rates targets.

The next section discusses the outcome in which investment in AI continues to drive a strong economy and to depress employment and wages. Does the Warsh supply-side framework offer a useful guide to policy?

An AI Shock—Looking Ahead

An AI-driven investment boom could produce an unusual macroeconomic situation: strong output alongside a weak labor market. Stanley wrote:

> In 2026, I look for the frenzy related to AI to continue. It seems that we are still quite early in the buildout, so additional heavy outlays in the technology space are quite likely. I am optimistic that strength in business investment will broaden in 2026, as firms in a wider array of sectors move off of the sideline and act on their long-term strategies. The result for this year could be, aside from the post-COVID rebound in 2022, the sharpest growth in real business fixed investment in over a decade.[10]

Recent data already point in this direction. As was the case in 2025, strength in business fixed investment (information processing equipment and software in the national income accounts) could drive continued strong growth in output. Despite a labor market in a state of stasis due to the uncertainty created by Trump's unpredictable tariff policies, the real economy grew steadily in 2025. For the interval from 2021Q3 through 2025Q3, growth in real final sales to private domestic purchasers remained on average close to 2.7 percent. As of December 23, 2025, the Atlanta Fed GDPNOW forecast for 2025Q4 was 3.0 percent. At the same time, underlying inflation remains moderately below 3 percent with no signs of increasing. On February 6, 2026, Dimitri Delis, senior econometric and macro strategist at the investment bank Piper Sandler, wrote: "Truflation, a real-time measure of consumer inflation that has historically tracked closely with CPI, has fallen

below 1 percent. If this relationship persists, both headline and core CPI could drift near/below 2 percent in the coming months, reinforcing the case for additional Fed rate cuts."[11]

AI could, however, also cause an increase in unemployment and downward pressure on wages. Jim Edwards, executive editor of global news at *Fortune*, summarized the work of analysts from Goldman Sachs:

> Joseph Briggs and Sarah Dong [Goldman Sachs analysts] estimate, based on Department of Labor numbers, that 25% of all work hours could be automated by AI. Thus, "We expect that the AI transition will lead to a meaningful amount of labor displacement." AI won't replace jobs in a uniform way, however. "Our baseline forecast for a 15% AI-driven labor productivity uplift and the historical relationship between technologically driven productivity gains and job loss implies that 6-7% of jobs will be displaced over the adoption period," they said. "We estimate a peak gross unemployment rate increase of around .6pp (corresponding to a 1 million increase in unemployed workers)."[12]

This combination of strong output and labor-market weakness raises a difficult question for monetary policy. In this scenario, what is the outcome if the FOMC follows Warsh's lead and reduces the funds rate? Rather than waiting for such a situation to arise, the FOMC needs to debate this issue in advance. To do so, it needs to debate the issue in terms of alternative rules. How should Warsh express his strategy in terms of a rule? How does his rule compare to rules in the past that either stabilized or destabilized the economy? Simply stating that the FOMC will go meeting by meeting, evaluate the economy, and do the right thing is unsatisfactory. Explicitness about the rule, which highlights the consistency in policy over time, is necessary to evaluate the adequacy of the chosen rule. If the economy begins to exhibit instability, the FOMC would be forced into such an evaluation rather than blame some external factor for the instability.

Any rule associated with the Warsh framework would need to offer a better chance of success than the rule that restored price stability and stability in the real economy in the Volcker–Greenspan era. The next section details the latter strategy.

Past Strategies Intended to Stabilize the Economy

What strategies has the FOMC followed in the past to organize monetary policy and its response to shocks? Unfortunately, the FOMC communicates with the public using the language of discretion. Consequently, it does not record its history in a way that elucidates the underlying consistency in policy (and deviations from that consistency). It is then necessary to offer a brief historical review of how the FOMC has organized monetary policy.[13]

Since the 1951 Treasury–Federal Reserve Accord, the basic underlying monetary policy has remained unchanged, as summarized in the phrase used by former Fed Chair William McChesney

Martin: leaning against the wind (LAW). There are two basic variations of LAW, which are captured by level-form and difference-form Taylor rules.[14] The essence of LAW is that the FOMC moves the funds rate in a measured way to offset unsustainable real-GDP growth measured by persistent changes in the economy's rate of resource utilization. A level-form Taylor rule organizes FOMC discussion around a Phillips curve, that is, tradeoffs between inflation and unemployment. A first-difference rule organizes FOMC discussion around maintaining stability in the economy's rate of resource utilization. The key difference in these rules is that with the first rule the FOMC introduces cyclical inertia into the funds rate and allows inflation to emerge, followed by disinflation. With the second, preemptive changes in the funds rate prevent that cyclical inertia and the associated deviations of inflation from price stability.

The first-difference rule characterized underlying monetary policy in the Volcker–Greenspan era following the Volcker disinflation.[15] The rule implements LAW by maintaining stability in the economy's rate of resource utilization. The stabilizing properties of the price system then determine the level of real GDP and keep it growing at potential. The first-difference rule makes clear that the FOMC is not manipulating unemployment. Persistent changes in unemployment are an informational variable relevant to judging whether monetary policy is stabilizing the economy's rate of resource utilization.

The use of preemptive changes in the funds rate makes the rule credible and causes firms setting prices for multiple periods, which determine underlying inflation, to set them based on the expectation of price stability. The FOMC's LAW procedures then track the natural rate of interest, which adjusts intertemporal demand to maintain aggregate contemporaneous output equal to potential real output. They do so because, say, persistent increases in the economy's rate of resource utilization indicate that the funds rate lies below the natural rate of interest and needs to rise. It follows from the outcome of price stability that the first-difference rule aligns the growth rate of nominal output with the growth rate of potential real output. As demonstrated by Orphanides, achievement of price stability (and the stable low unemployment that accompanies it empirically) follows from the practice by the FOMC of keeping meeting-by-meeting forecasts of nominal GDP growth aligned with forecasts of potential real GDP growth.[16]

How can the FOMC implement a first-difference rule, assuming an AI shock that stimulates output through investment while increasing unemployment and possibly causing nominal wage growth to decline? The experience with the pandemic monetary policy offers an instructive lesson. The COVID shock lowered productivity growth and raised unemployment. Especially, consumers stopped eating at restaurants, and restaurant workers were laid off. Economists Robert Hall and Marianna Kudlyak documented that much of the unemployment consisted of temporary layoffs and was not representative of the unemployment in a typical recession in which the unemployed actively seek a job.[17] Despite the fact that the increase in unemployment was structural, the FOMC launched a hugely expansionary monetary policy. It assumed that the rise in unemployment would

restrain inflation. Potential real output decreased while aggregate demand increased. The result was the inflation of 2022–23.

An increase in unemployment associated with an AI shock would also be structural and not indicative of a slowing of growth in output. Ignoring the structural character of the increase in unemployment and initiating an expansionary monetary policy in response would be inflationary. The AI scenario, however, differs from the pandemic episode in one important respect: Potential real output would increase with an AI shock. How, then, would a first-difference rule work? The FOMC would need to look at measures of stress in the macroeconomy such as increased delays in supplier deliveries, declining inventories, and increased new orders.

Assume that the FOMC judges that these indicators are signaling a potential overheating of the economy, but inflation is still quiescent. The defining moment would be a decision to raise the funds rate preemptively to prevent the emergence of inflation. The FOMC would be making a forecast that in the absence of an increase in the funds rate, the rate of growth of nominal output would rise above the rate of growth of potential real output, and with a lag inflation would rise. In this framework, an assumption that an AI shock should lead to a reduction in interest rates is unwarranted.

Recent changes in the Fed's policy framework illustrate the importance of this issue. One intent of the original January 2012 FOMC Statement on Longer-Run Goals and Monetary Policy Strategy was to assert the primacy of price stability and by implication the practice of preemptive increases in the funds rate. A major purpose of the August 2020 Statement was to inform financial markets that the FOMC had abandoned preemptive increases in the funds rate. The FOMC wanted monetary policy to remain highly expansionary, which required that bond markets not raise long-term interest rates as the unemployment rate declined. Because the 2025 Statement failed to reinstate preemptive changes, monetary policy remains ambiguous going into 2026 as does its response to an AI shock.

This ambiguity reflects a deeper feature of the Fed's institutional culture: its reluctance to articulate monetary policy as the implementation of a consistent rule. As a result, debates about policy often occur in the language of discretion rather than in terms of alternative rules and their implications for price stability and economic stability. The question, then, is whether a Warsh chairmanship would change that culture.

What Would It Take for Warsh to Change the Culture of the Fed?

Changing the culture of the Federal Reserve would require reforms along two related dimensions. First, it would require a shift in how policymakers think about and organize monetary policy—specifically, whether policy is understood as the implementation of a consistent rule or as the exercise of discretionary judgment from meeting to meeting. Second, it would require greater

transparency about that framework so that Congress and the public can evaluate how the Fed conducts monetary policy. These two dimensions—how the Fed thinks about policy and how it explains policy—together determine whether the central bank operates in a transparent and accountable way.

Changing how the Fed thinks about policy

Reform of the Fed requires a transparency that must start with articulation of the consistency underlying monetary policy (a rule embodied in a reaction function). Such consistency causes financial markets to adjust continually and predictably their forecasts of short-term interest rates at the various maturities, whose concatenation forms the yield curve. The yield curve adjusts continually in response to incoming news about the behavior of the economy. The behavior of the economy then adjusts in turn. With the appropriate rule, the yield curve then moves to maintain price stability and the full employment of resources. The reestablishment of stability in the Volcker–Greenspan era implies that the appropriate rule is one that follows LAW procedures with preemptive changes in the funds rate. Such a rule allows the stabilizing properties of the price system to work because of the way that it causes the funds rate to track the natural rate of interest.[18]

Beyond stabilizing financial markets and the real economy, such a reform would bring Fed procedures into line with the standard practice of academic economists who write down simple conceptual models of monetary policy with a reaction function. Transparency is also a prerequisite for an exchange of ideas between Fed policymakers and academic economists. The FOMC practice of communicating the rationale for funds rate changes in terms of the contemporaneous behavior of the economy rather than communicating by placing them in the context of a consistent (rule-based) framework has the unfortunate effect of preventing discussion of the most fundamental issue in monetary policy of whether the price level is a monetary or a nonmonetary phenomenon. In particular, if the price level is a monetary phenomenon, the heart of a stabilizing monetary policy is monetary control rather than Phillips curve tradeoffs.

Understanding the price level as a monetary phenomenon requires recognizing how monetary policy operates in practice. Because the FOMC uses an interest rate instrument rather than a reserves instrument, money (broadly defined as the liquidity in the public's asset portfolio) is determined by the public's demand. The monetary control required for price stability therefore requires that the FOMC follow a rule (even if implicit) that disciplines the demand for money. The rule must be credible so that firms setting prices for multiple periods set them based on the assumption that the future price level will remain unchanged. The FOMC is then free to follow procedures that cause the funds rate to track the natural rate of interest (LAW with preemptive changes in the funds rate), which maintains current aggregate demand equal to potential real output. As a result, real output grows in line with potential real output. Money demand and money then grow at a rate consistent with price stability. As a result of Fed culture that precludes characterizing monetary policy as a rule, the FOMC cannot debate the nature of the price level.

This issue connects to a long-standing debate in macroeconomics. The nature of the price level was at the heart of the monetarist–Keynesian debate. The discipline required to control a nominal variable (money) limits the ability of monetary policy to control real variables like unemployment and real output. A rule in the monetarist spirit like the first-difference Taylor rule turns that task over to the stabilizing properties of the price system to exercise. Foremost among them is the way in which the natural rate of interest distributes aggregate demand intertemporally to maintain aggregate demand equal to potential real output. The monetarist challenge to Keynesianism created a firestorm.

Changing how the Fed relates to Congress and the public

Beyond its economic implications, transparency about the policy rule also has important institutional consequences. The transparency promoted by a simple conceptual framework organized around a reaction function (a rule) would allow the staffs of the congressional banking committees to evaluate monetary policy. They could then brief their congressional bosses in a way that would actually allow the latter to hold the FOMC to account in congressional oversight hearings. In 2025, in his challenge to Fed independence, Trump overplayed his hand. Given a choice of whether Trump or Powell would conduct monetary policy, broad political opinion chose Powell. This confrontation, however, does not settle the long-run issue of Fed independence. The FOMC still appears to a broad public as unidentified, unelected individuals operating outside the constitutional system of checks and balances. In a mysterious way, not subject to supervision, they pull levers to control the economy.

One reason the Fed's role appears opaque is its reliance on discretionary explanations of policy. In the absence of an explicit analytical framework, the FOMC necessarily operates with an implicit rule of thumb for moving the funds rate with a LAW procedure. The FOMC chair argues for discretion based in part on the need to respond to unforeseen crises. Such instances, however, are precisely when a rule is needed to assure markets that in the longer run, economic and price stability will return. Confidence in the future maintains spending in the event of a negative shock. The immediate issue concerns how the FOMC will conduct policy in the event of an AI shock. The necessary discussion requires that the FOMC talk in terms of rules. Such discussion would require a change in Fed culture.

Ultimately, the issue of transparency and accountability has constitutional roots. The Constitution gave Congress the authority over the monetary standard. Congress delegated the responsibility to create the monetary standard to an independent Fed. The language of discretion used by Fed spokespersons, however, renders opaque the nature of the standard that the Fed has created. The resulting lack of accountability inevitably makes the Fed a target for populists on the left and the right who want to take control of the Fed's "levers" in pursuit of their own objectives, which are not price stability.

For that reason, maintaining public support for an independent Fed requires greater transparency about how monetary policy works. To build public support for its independence, the Fed needs to explain monetary policy within a simple conceptual framework that makes clear what macroeconomic variables it controls, how it exercises that control, and the limitations on that control for real variables. Monetary policy transmits to the behavior of the economy through the way in which it coordinates the collective behavior of firms and households. The consistency of policy achieves that coordination through the way in which it both shapes the expectations of the public and causes the behavior of the price system to behave in a stabilizing way.

Whether Kevin Warsh ultimately changes the culture of the Federal Reserve will depend on whether he replaces the language of discretion with a transparent rule-based framework for monetary policy. Such a framework would clarify how the Fed pursues price stability and would allow Congress and the public to evaluate its performance. Transparency about the rule guiding policy would strengthen both the effectiveness and the legitimacy of the Federal Reserve within the constitutional system of checks and balances.

About the Author

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Notes

1. Kevin Warsh, "The Search for a Nominal Anchor. Introduction," in *Fifty Years of the Shadow Open Market Committee*, eds., Michael D. Bordo, Jeffrey M. Lacker, Mickey D. Levy, and John B. Taylor (Stanford University: Hoover Institution Press, 2025), 129.
2. Warsh, "The Search for a Nominal Anchor," 129.
3. Kevin Warsh, "The Federal Reserve's Broken Leadership," *The Wall Street Journal,* November 17, 2025.
4. Warsh, "The Federal Reserve's Broken Leadership."
5. Judy Shelton, "The Better Way to Fight Inflation Is to Increase Supply, Former Trump Advisor Says," *Fox Business*, February 7, 2026.
6. Derek Tang, "Policy Prism: Warsh Easing Wherewithal," *Monetary Policy Analytics*, February 6, 2026.
7. Stephen Stanley, "Weekly Economic Calendar Plus Forecast Table," *Santander*, February 13, 2026.
8. Warsh, "The Search for a Nominal Anchor," 129.
9. Kevin Warsh, "Priorities on the Path to Normalization," *Cato Journal* (Spring/Summer 2018).
10. Stanley, "Weekly Economic Calendar Plus Forecast Table."
11. Dimitri Delis, "Truflation Signals Disinflation, CPI likely to Follow," Economic Brief, Piper Sandler, February 5, 2026.

12. Jim Edwards, "'Humans Could Go the Way of Horses': Goldman Calculated How Bad the AI Job Apocalypse Will Be—and Its Analysts Were Pleasantly Surprised," *Fortune*, February 9, 2026.

13. Robert L. Hetzel, *The Federal Reserve System. A New History* (University of Chicago Press, 2022).

14. Economist John Taylor introduced an example of a level-form rule in that monetary policy actions are predicated on an inflation gap and an output (unemployment) gap (see John Taylor, "Discretion Versus Policy Rules in Practice," *Carnegie–Rochester Conference Series on Public Policy* 39 [1993]: 195–214). Taylor showed that the following "Taylor rule" with g_π and g_x equal to 0.5 predicted the funds rate reasonably well over the period 1987 through 1992:

    (1) $i_t = 2 + \pi_t + g_\pi(\pi_t - \pi^*) + g_x x_t$

    The funds rate is i_t. The constant term, 2, is the assumed long-run average of the real rate of interest. The prior four-quarter inflation rate is π_t and the FOMC's inflation target is π^*. Taylor assumed that the FOMC's inflation target has remained unchanged at 2 percent. The output gap, x_t, is the percentage deviation of real GDP from a trend line fitted to past real GDP taken as measuring potential real output.

    Formula (2), below, is a first-difference rule. It is from a list of rules in the Board of Governors Tealbook used in alternative simulations of the Board model FRB/US (see Board of Governors of the Federal Reserve System, "Report to the FOMC on Economic Conditions and Monetary Policy," *Book B, Monetary Policy: Strategies and Alternatives*, August 4, 2011).

    (2) $i_t = i_{t-1} + 0.5(\pi_{t+3|t} - \pi^*) + 0.5(\Delta^4 y_{t+3|t} - \Delta^4 y^*_{t+3|t})$

    where i_t is the funds rate for quarter t. $\pi_{t+3|t}$ is forecasted inflation three quarters ahead, and π^* is the inflation target. $(\Delta^4 y_{t+3|t} - \Delta^4 y^*_{t+3|t})$ is the forecasted three-quarters ahead annual average real GDP growth relative to potential. As the Board staff noted: "The prescriptions of the first-difference rule do not depend on assumptions regarding r^* [a constant term for the average funds rate] or the level of the output gap" (see Board of Governors of the Federal Reserve System, *Report to the FOMC on Economic Conditions and Monetary Policy*, 2011, 43).

15. Hetzel, *The Federal Reserve System*.

16. Athanasios Orphanides, "Enhancing Resilience with Natural Growth Targeting," MIT, December 2023. Draft prepared for the AIER Fed Framework Review Workshop, Florida Atlantic University, Boca Raton, January 20, 2024.

17. Robert E. Hall and Marianna Kudlyak, "The Unemployed with Jobs and without Jobs," *Labour Economics* 79 (October 2022).

18. Hetzel, *The Federal Reserve System*, ch. 29.