Fed hawks push for clearer policy goals

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By Ed Krudy and Ann Nachtigal

PHILADELPHIA/SIOUX FALLS, South Dakota (Reuters) - Two Federal Reserve policymakers known for their hawkish views on inflation pushed on Tuesday for the central bank to provide more guidance on policy goals.

Philadelphia Fed President Charles Plosser reiterated a longstanding call for the Fed to adopt a 2-percent inflation target and made a fresh argument for policymakers to publish individual forecasts and their views of appropriate policy responses.

Minneapolis Fed President Narayana Kocherlakota, who voted with Plosser against recent Fed moves to ease monetary policy, also pushed for more central bank clarity, saying the Fed has the tools to push U.S. borrowing costs lower but should give clear guidance on what economic conditions would trigger their use.

The U.S. central bank should let the public know, for instance, what the Fed's intentions would be if inflation overshot its forecast of around 1.7 percent for 2013 and threatened to rise to 3 percent, even if unemployment was still in the 8 percent to 8.5 percent range, Kocherlakota said.

"A public FOMC contingency plan can help reduce the level of policy uncertainty being created by the Fed," Kocherlakota said in Sioux Falls, South Dakota.

Communications policy has emerged as a critical tool for the Fed as it navigates uncharted waters in monetary policy making. The Fed has held rates near zero for nearly three years and bought $2.3 trillion in long-term securities to send borrowing costs down still further.

Plosser and Chicago Fed President Charles Evans, a noted dove, are working with Fed Vice Chair Janet Yellen on crafting better ways to explain the Fed's goals to the public.

Both Kocherlakota and Plosser voted with the 9-1 majority on the Fed's policy-setting panel last Wednesday to hold a steady course on the central bank's super-easy policy.

They had opposed the Fed's easing in August and again in September.

Plosser said his views on easing had not changed since then.

"If anything, the data since September and November seems to be reasonable, it doesn't look like the economy is drifting downward anymore," Plosser said at a meeting of the Global Interdependence Center in Philadelphia.

The lone dissenter last Wednesday was Evans, who called for more stimulus. He has suggested the Fed keep interest rates near zero until the unemployment rate reaches 7 percent, as long as inflation does not threaten to top 3 percent.

Plosser argued that any attempt to juice economic activity by creating inflation was doomed to fail.

"Sometimes these arguments are opportunistically couched in terms of alternative policymaking frameworks, such as nominal GDP targeting, or price-level targeting," Plosser said, naming two policy frameworks that Evans has embraced.

"Regardless of the name, though, I believe the main motivation for many is to raise inflation," said Plosser.

Both Plosser and Kocherlakota argued that employment is affected by factors outside the Fed's control. Unemployment registered 9 percent last month.

"Achieving price stability is the most effective means for monetary policy to promote the other two goals" of maximum sustainable employment and moderate long-term interest rates, Plosser said, adding that inflation can deviate from the stated goal but must be brought back in line within a time frame of two to three years, or less.

Both policymakers said the Fed has tools to push rates down lower, including buying more Treasuries. Kocherlakota said the Fed, which has said it will likely keep rates low through at least mid-2013, could also extend that time frame.

Although both Plosser and Kocherlakota said the European crisis could prompt the Fed to act, neither lent their support to using those tools, for now.