In the midst of the crisis, the federal funds rate began trading near zero. In December 2008, the FOMC changed the target policy rate to a range of 0 to 0.25 percent, where it remains.

“The debate over the wisdom of locking in near-zero rates did not take sufficient account of the experience in Japan, in my view,” Bullard said. The Bank of Japan lowered its policy rate to near zero in the 1990s, and short-term rates in Japan remain at zero today.

Bullard noted that some analysis suggests that the sooner policymakers set the policy rate to zero, the sooner the economy will recover and the sooner interest rates can be returned to normal. “I have seen no evidence that this is true during the last five years,” he said. “Instead, I think the December 2008 FOMC decision unwittingly committed the U.S. to an extremely long period at the zero lower bound similar to the situation in Japan, with unknown consequences for the macroeconomy,” Bullard cautioned.

Overall, he noted that the events of 2008 are likely to be studied for decades to come. The features of the macroeconomic situation that he discussed “have to be addressed in any comprehensive accounting of what happened,” Bullard said.

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- **November 1, 2013**. Presentation. "The Tapering Debate: Data and Tools," Financial Forum, St. Louis Regional Chamber.
  Presentation (pdf) (bullardstlregchamberfinancialforum1november2013finalpdf) | Press Release | Related news articles.

The Tapering Debate: Data and Tools

November 1, 2013

St. Louis Fed President James Bullard discussed current monetary policy tools and the data dependency of tapering at the Financial Forum hosted by the St. Louis Regional Chamber. Bullard said that data dependence encompasses both cumulative progress in labor markets since the FOMC's asset purchase program began and a judgment concerning the sustainability of that progress.

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardstlregchamberfinancialforum1november2013final.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2013/11/01/st-louis-feds-bullard-discusses-data-dependency-of-tapering-and-current-policy-tools)

Related News Articles:
• [Bullard Says Labor Market Gains Could Back QE Taper Case](http://www.bloomberg.com/news/2013-11-01/bullard-says-labor-market-gains-could-back-case-for-tapering.html), by Steve Matthews, Bloomberg.
• [Fed's Bullard: Further Job Market Gains Will Lead to Taper](http://blogs.wsj.com/economics/2013/11/01/feds-bullard-further-job-market-gains-will-lead-to-taper/), by Michael S. Derby, Dow Jones.
• [Fed may have to accept market taper view: Bullard](http://www.marketwatch.com/story/fed-may-have-to-accept-market-taper-view-bullard-2013-11-01-9911017), by Greg Robb, MarketWatch.
• [Fed's Bullard: Oct Meeting Not 'Right Juncture' For Tapering](https://mninews.marketnews.com/index.php/feds-bullard-oct-meeting-not-right-juncture-tapering?q=content/feds-bullard-oct-meeting-not-right-juncture-tapering), by Karen Mracek, Market News International.
• [Fed's Bullard: need confidence job gains will stick before taper](http://www.reuters.com/article/2013/11/01/usa-fed-bullard-idUSL1N0IM0O020131101), by Alister Bull, Reuters.
• [Tapering decision will probably be left to the Yellen Fed](http://www.stltoday.com/business/columns/david-nicklaus/tapering-decision-will-probably-be-left-to-the-yellen-fed/article_c11e2db4-f079-

5579-b4b5-d7d6ffabe97b.html), by David Nicklaus, St. Louis Post-Dispatch.

St. Louis Fed's Bullard Discusses Data Dependency of Tapering and Current Policy Tools

ST. LOUIS – Federal Reserve Bank of St. Louis President James Bullard discussed ["The Tapering Debate: Data and Tools,"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardstlregchamberfinancialforum1november2013final.pdf)at the Financial Forum hosted by the St. Louis Regional Chamber on Friday.

Bullard noted that current U.S. monetary policy has two components: 1) a short-term policy rate, which has been near zero since December 2008, and its associated forward guidance, and 2) an asset purchase program that began in September 2012, with purchases currently at a pace of $85 billion per month.

At its meeting earlier this week, the Federal Open Market Committee (FOMC) made no changes to the pace of asset purchases. "Any FOMC decision on tapering is data dependent," Bullard emphasized, explaining that data dependence in this case encompasses both cumulative progress in labor markets since September 2012 and a judgment concerning the sustainability of that progress.

During his presentation, Bullard also discussed the FOMC's two different monetary policy tools currently in use—the asset purchases and forward guidance. "A decision to modestly reduce the pace of asset purchases can still leave a very accommodative policy in place to the extent forward guidance remains intact," he explained. Bullard said that while the FOMC views the two tools as independent, financial markets view them as closely linked. "This presents challenges for the Committee," he noted.

Tapering Decisions Depend on the Data

Bullard said that cumulative progress in labor market outcomes since

September 2012 provides the most powerful part of the case for tapering, or reducing the pace of purchases. The FOMC's stated goal when it began the current asset purchase program in September 2012 was substantial improvement in labor market outcomes. Bullard noted that two key labor market indicators—unemployment and nonfarm payroll employment—have shown clear improvement over the past year.

To be sure, not all aspects of labor markets have improved, he said. For instance, growth in total hours worked has been slower than it was before the September 2012 decision.

"To the extent that key labor market indicators continue to show cumulative improvement, the likelihood of tapering asset purchases will continue to rise," Bullard said. "This is because the Committee's 2012 criterion of substantial improvement in labor markets gets easier and easier to satisfy on a cumulative basis as labor markets continue to heal."

However, he cautioned that "the Committee also wants reassurance that any progress made in labor markets will stick."

Two Monetary Policy Tools

Bullard then turned to how policymakers and financial markets view the FOMC's near-zero policy rate coupled with forward guidance and the asset purchase program. He noted that policymakers tend to think of these tools separately, and financial markets tend to think of the two tools together. "Both views have some merit," he said.

The financial market view has some merit because for both tools, the setting is dependent on the state of the economy, Bullard said. "When there is a change to the macroeconomic outlook, it is reasonable to think that the settings for both tools would be affected." The policymaker view also has some merit because the two tools can be thought of as independent, Bullard explained. "The policymaker can choose to respond to a change in the outlook by altering the setting of one tool, leaving the other unchanged," he said. "In particular, a decision to taper need not change the Committee's forward guidance."

Bullard discussed two recent events that provide a window on the connection between asset purchases and forward guidance. The first was in June, when the FOMC announced a "roadmap" for a possible tapering decision in the autumn. The second event was in September, when the FOMC decided not to taper at that particular meeting and instead decided to continue with the current pace of purchases. Bullard noted that the June announcement was viewed as relatively hawkish by financial markets and the September announcement was viewed as relatively dovish.

"The 'financial markets signature' from the unexpected changes in the policy stance at the June and September FOMC meetings showed that asset purchases are very effective," Bullard said. He explained that key variables, including the real interest rate, the exchange rate, equity prices and expected inflation, moved significantly and in the conventional direction following these announcements. "This demonstrates that changes in the pace of asset purchases have a very similar financial market effect as changes in the policy rate during more 'normal times,'" Bullard said.

While changing the pace of asset purchases acts very much like a conventional change in interest rates, this effect also spilled over to the expected path of the policy rate (the FOMC's "forward guidance"). Bullard noted that this effect was perhaps surprising to policymakers, who view the two tools as independent, but not to financial markets, which view the two tools as tied closely together.

"The Committee needs to either convince markets that the two tools are separate, or learn to live with the joint effects of tapering on both the pace of asset purchases and the perception of future policy rates," Bullard said.

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