satisfactory answers is going to be slow, but still this is the only reasonable course to make progress.

Individual researchers often wish to focus attention on relatively small problems that can be analyzed effectively. This is natural: We need an answer in a reasonable amount of time. But working on stripped-down problems is inadequate in the medium and longer run to get a clear understanding of how the economy works and how various policies are affecting macroeconomic outcomes. The macroeconomic research effort in the U.S. and around the world needs upgrading. At some point, the economics profession needs to have bigger, more elaborate models with many more important features, remaining consistent with microeconomic theory and evidence, to see more clearly how those features interact and to obtain a more sound understanding of how policy affects the entire picture.

It is clear to me that policymakers must be receptive to working through and understanding rigorous theory, while researchers must be receptive to grappling with policy issues. Success is much more likely when the theorist and the policymaker communicate with each other. The foundation for good policy to deal with our pressing and vexing policy issues is rigorous and relevant theory. There are simply no shortcuts.

Endnotes

1. See my opening remarks at the 38th annual Federal Reserve Bank of St. Louis fall conference on Oct. 10, 2013, at [http://research.stlouisfed.org/econ/bullard/pdf/Opening-Remarks-Fall-Conference-Oct-10-2013-final.pdf](http://research.stlouisfed.org/econ/bullard/pdf/opening-remarks-fall-conference-oct-10-2013-final.pdf). [ [back to text](https://www.stlouisfed.org#1##1)]
2. See my article in the September/October 2010 issue of the Federal Reserve Bank of St. Louis Review, "Seven Faces of 'The Peril,'" at [http://research.stlouisfed.org/publications/review/10/09/Bullard.pdf](http://research.stlouisfed.org/publications/review/10/09/bullard.pdf). [ [back to text](https://www.stlouisfed.org#2##2)]
3. See my speech on April 17, 2013, "Some Unpleasant Implications for Unemployment Targeters," at

[http://research.stlouisfed.org/econ/bullard/pdf/Bullard_NYMInsky_2013_Final.pdf](http://research.stlouisfed.org/econ/bullard/pdf/bullard_nyminsky_2013_final.pdf). [ [back to text](https://www.stlouisfed.org#3##3)]



- **October 10, 2013**. [Opening Remarks](). Given at the 38th Annual *Federal Reserve Bank of St. Louis Fall Conference*, Federal Reserve Bank of St. Louis. [Remarks (pdf) (opening-remarks-fall-conference-oct-10-2013-finalpdf)]().

**Opening Remarks: St. Louis Fed Fall Conference**

October 10, 2013

President James Bullard delivered opening remarks at the 38th annual [Federal Reserve Bank of St. Louis fall conference](http://research.stlouisfed.org/conferences/annual/index.html), sponsored by the Research Division. During his remarks, he noted that the St. Louis Fed has long been a leader in supporting research at the intersection of economic theory and economic policy.

Full text of remarks:

Opening remarks by President James Bullard 38th Annual Federal Reserve Bank of St. Louis Fall Conference Federal Reserve Bank of St. Louis Oct. 10-11, 2013

It is my pleasure to welcome you to the St. Louis Fed 2013 Fall Conference. This is the 38th year for this conference. I want to thank Alex Monge and YiLi Chien for putting this very provocative program together. I am looking forward to the stimulating discussion these papers are sure to inspire over the next day and a half.

At the St. Louis Fed, we have long tried to provide perspectives on whether the policies adopted in the past still serve us well today and whether recent developments at the frontier of research can be fruitfully applied to improve policy. This agenda has become especially important in the past few years, as the Fed and central banks around the world have struggled to devise appropriate policy responses to the current macroeconomic situation.

In polite economist society, there has long been a distinction between what is known as "frontier" research and what is sometimes called "policy" research. In my view, this has been and continues to be a false dichotomy. There is no such distinction: "Policy" and "frontier" research are two sides of the same coin. We need to understand both how fundamental mechanisms in the economy operate as well as how current data can be interpreted in terms of fundamental theory.

In short, advanced economic theory has to be made more relevant for actual policy, and actual policy has to understand and embrace the difficult ideas advanced in the theoretical world. The Federal Reserve Bank of St. Louis has long been a leader in supporting research at the intersection of economic theory and economic policy.

We are fortunate this year to have an outstanding group of speakers whose research expands our understanding of key contemporary issues in macroeconomics. This year's conference covers a wide range of topics: from the labor market to financial markets, from macroeconomic dynamics and monetary policy to the lifecycle behavior of households.

Concerning current and near-term macroeconomic issues, this year's agenda includes papers examining:
• the behavior of the federal funds market;
• interest rate risk exposure for banks in the U.S.;
• the distribution of firms ranked by their degree of financial soundness;
• money and the role of financial intermediation;
• a New Keynesian macroeconomy with important labor market frictions;
• the effects of leverage restrictions on financial intermediaries; and
• the effects of large-scale asset purchases in an environment with endogenous collateral constraints.

We also have a group of papers focusing on the lifecycle behavior of households. The topics in this section include:
• inequality in health spending across income groups; and
• the links between home production, retirement and labor supply elasticities.

I know that these papers and the ideas they contain will contribute importantly to the macroeconomic discussion in the coming years as the papers are eventually published and the results become more widely known in the profession. The St. Louis Fed is proud to provide this forum for discussion and analysis of the leading issues of the day.

Let me again welcome all of you to the St. Louis Fed Fall Conference. Thanks very much for coming, and now let's get to work!

James Bullard, President and CEO Federal Reserve Bank of St. Louis

- **October 2, 2013**. Opening Remarks. Given at the Federal Reserve/CSBS Community Banking Research Conference, *Community Banking in the 21st Century*, St. Louis.
Remarks (pdf) (communitybankingresearchconference2013october2pdf).

**Opening Remarks: Community Banking in the 21st Century**

October 2, 2013

St. Louis Fed President James Bullard delivered opening remarks at the community banking research conference, hosted by the Federal Reserve and the Conference of State Bank Supervisors. He said that the future of community banks is important to both the economy and the communities they serve and noted that the St. Louis Fed supports increased research on community banking.

Full text of remarks:

Opening remarks by President James Bullard Federal Reserve/CSBS

Community Banking Research Conference Community Banking in the 21st Century St. Louis, Mo. Oct. 2, 2013

Good afternoon and welcome to the conference.

Over the past 20 years, we have seen a material and sustained change in the structure of banking in the United States. There were more than 10,000 community bank charters 20 years ago. As of the end of 2012, there were approximately 6,000 community bank charters. Over that same time period, the percentage of banking assets in community banks also changed dramatically. Twenty years ago, community banks held nearly 50 percent of all banking assets in the United States. Today, they hold 17 percent, while 83 percent of the assets are held by the largest 84 banks with more than $10 billion in total assets.

The past five years have further challenged community banks, with nearly 500 bank failures over that time. These failures were handled in a relatively routine fashion, with little fanfare and little damage to banking services in affected areas. It was capitalism at work: Those banks with poor business results had to admit defeat by market forces and close their doors. There were no bailouts for these business owners.

Those community banks that survived and thrived through the crisis and its aftermath retain an important role in the U.S. economy. For example, although community banks account for only 20 percent of all loans made by commercial banks, they account for 52 percent of the small business and farm loans. And, equally as important, community banks are a community partner. They have a stake in the economic health of the communities they serve.

The future of community banks is important—to both the economy and the communities they serve. At the St. Louis Fed, we support increased research on community banking and encourage policymakers to be cognizant of the value of these institutions.

I know that state bank commissioners have been an important partner in encouraging quality research on the topic of community banking. We place a high value on our shared supervisory responsibilities with the states—that relationship is clearly reflected in our audience today as we have more than half of the state commissioners in the audience with us today.

I would also like to express my sincere appreciation for the strong support of Chairman Bernanke and Governor Jay Powell. Both are keenly interested in matters affecting community banks.

My next official duty is to introduce Chairman Bernanke. Chairman Bernanke has come to the right city at the right time. As I understand it, Washington has shut down and is no longer playing baseball, the Chairman's favorite sport. St. Louis has not shut down and continues to play baseball; so, consider St. Louis your home for baseball, Mr. Chairman.

Ben Bernanke began his second term as Fed Chairman on Feb. 1, 2010. Prior to his appointment, he was the Chairman of the President's Council of Economic Advisers from June 2005 to January 2006. The Chairman is a Fellow of the Econometric Society and of the American Academy of Arts and Sciences. As most of you know, the Chairman has continued to offer exceptional leadership for the Federal Reserve during the very trying times of recent years. I really appreciate the Chairman coming to address this conference.

Please join me in welcoming Ben Bernanke.

James Bullard, President and CEO Federal Reserve Bank of St. Louis

- **September 20, 2013**. Presentation. "Four Questions for Current Monetary Policy," *New York Association for Business Economics*, New York, N.Y. Presentation (pdf) (bullardnyabe2013september20finalpdf) | Press Release | Related news articles.

**Four Questions for Current Monetary Policy**

September 20, 2013

St. Louis Fed President James Bullard discussed "Four Questions for Current

Monetary Policy” at the New York Association for Business Economics luncheon. He said that QE is an effective way to conduct monetary stabilization policy and that relatively low inflation readings allow the FOMC to be patient in assessing the future of asset purchases.

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardnyabe2013september20final.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2013/09/20/st-louis-feds-bullard-discusses-four-questions-for-current-monetary-policy)

Related News Articles:
• Fed official says Fed could slow bond buys in October if economy shows improvement,  Associated Press Newswires.
• [Bullard Says Taper Possible After Close Call QE Decision](http://www.bloomberg.com/news/2013-09-20/bullard-says-weaker-data-prompted-borderline-fomc-taper-delay.html), by Steve Matthews and Caroline Salas Gage, Bloomberg.
• Fed's Bullard Says Lack of Taper Move Boosts Fed's Credibility, by Michael S. Derby,  Dow Jones.
• [Bullard Says Taper Possible in October](http://www.nasdaq.com/article/bullard-says-taper-possible-in-october-20130920-00271), Dow Jones.
• [Senior Fed official weighs October taper if economic data improve](http://www.ft.com/intl/cms/s/0/990e3454-2205-11e3-bb64-00144feab7de.html?siteedition=intl#axzz2furkNgR0), Financial Times.
• [St Louis Fed's Bullard: Oct FOMC is a 'Live' Meeting](https://mninews.marketnews.com/content/st-louis-feds-bullard-oct-fomc-live-meeting), Market News International.
• [Fed's Bullard: QE Changes Same Impact As Conventional Policies](https://mninews.marketnews.com/content/feds-bullard-qe-changes-same-impact-conventional-policies-0), Market News International.
• [Fed's Bullard: Decisn Helps Credibilty, Shows Serious About Data](https://mninews.marketnews.com/content/feds-bullarddecisn-helps-credibiltyshows-serious-about-data), Market News International.
• [Bullard: Decision enhanced Fed credibility, St. Louis Fed president says a small taper in October is

'possible,'](http://www.marketwatch.com/story/bullard-tapering-more-likely-if-jobs-improve-2013-09-20?link=MW_latest_news)by Polya Lesova and Greg Robb, MarketWatch.
• [Fed need not rush to taper while inflation is low - Bullard](http://www.reuters.com/article/2013/09/20/usa-fed-bullard-idUSL2N0HG18620130920), by Steven C. Johnson, Reuters.
• [St. Louis Fed's Bullard weighs in on stimulus timing](http://www.bizjournals.com/stlouis/blog/2013/09/st-louis-feds-bullard-weighs-in-on.html), by Greg Edwards, St. Louis Business Journal.
• [In Speeches, Fed Officials Amplify a Discordant Message](http://online.wsj.com/article/SB10001424127887323808204579087172229040790.html?KEYWORDS=bullard), The Wall Street Journal.

**St. Louis Fed's Bullard Discusses Four Questions for Current Monetary Policy**

NEW YORK – Federal Reserve Bank of St. Louis President James Bullard discussed ["Four Questions for Current Monetary Policy,"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardnyabe2013september20final.pdf)at the New York Association for Business Economics (NYABE) luncheon on Friday.

At its June 2013 meeting, the Federal Open Market Committee [(FOMC)](https://www.stlouisfed.org/fomcspeak/)leaned toward an earlier-than-expected reduction in the pace of asset purchases, Bullard noted. At its meeting earlier this week, the FOMC delayed tapering. In his presentation, Bullard addressed four aspects related to current policy and concluded the following:
1. Financial market reaction to the June and September FOMC meetings provides sharp evidence that changes in the expected pace of asset purchases have conventional monetary policy effects.
2. The September FOMC decision illustrates that tapering decisions are data dependent.
3. Continued cumulative labor market gains relative to September 2012—when the current asset purchase program began—would increase the

probability of tapering.
4. Relatively low inflation readings allow the Committee to be patient in assessing the future of asset purchases.

Is quantitative easing an effective way to conduct monetary stabilization policy?

In discussing the effectiveness of quantitative easing (QE), Bullard examined the financial market effects following the two most recent FOMC meetings. He noted that the policy decision in June was more hawkish than markets had expected, whereas the policy decision earlier this week was more dovish than expected. “The empirical evidence from these two episodes provides striking confirmation that changes in the expected pace of purchases act just like conventional monetary policy,” Bullard said.

In normal times, the FOMC would adjust the expected path of the policy rate upward or downward depending on macroeconomic circumstances. Bullard explained that an easier-than-expected policy path would lower real interest rates, raise inflation expectations, increase equity prices and depreciate the dollar; a tighter-than-expected policy path would have the opposite effects.

“Changes in the expected pace of purchases at the June and September FOMC meetings had the same financial market effects as would have occurred had the Committee been able to change the policy rate path directly,” Bullard said. “Using the pace of purchases as the policy instrument is just as effective as normal monetary policy actions would be in normal times,” he concluded. “In other words, QE is an effective way to conduct monetary stabilization policy.”

Are FOMC decisions about QE tapering data dependent?

As Fed Chairman Ben Bernanke has emphasized, decisions on the pace of tapering depend on incoming macroeconomic data. “This was illustrated by the recent FOMC decision to delay tapering,” Bullard said, adding that at the most recent meeting, the FOMC downgraded its assessment of forecast real GDP growth for 2013 and 2014 and also reduced its expectations for inflation. “Normally, the Committee would not want to reduce policy accommodation in this situation," he said.

Bullard noted that the FOMC's downgraded outlook relative to the June meeting reflected weaker-than-expected data during the intermeeting period and added that the June narrative—that the second half of 2013 would have strong growth—was called into question.

Does cumulative progress in labor market outcomes since September 2012 matter for QE tapering?

The FOMC's stated goal when it began the current QE program in September 2012 was substantial improvement in labor market outcomes. Bullard noted that two key labor market indicators—unemployment and nonfarm payrolls—have shown clear improvement over the past year. For instance, nonfarm payroll employment grew by an average of about 184,000 jobs per month from September 2012 to August 2013, up from an average of about 141,000 jobs per month from March 2012 to August 2012.

"To the extent that these two important labor market indicators continue to show improvement, the likelihood of tapering policy action will continue to rise," Bullard said.

Do current low inflation readings suggest the FOMC can be patient in assessing the QE program?

While labor market outcomes have improved since September 2012, Bullard noted that inflation readings have been low, which suggests that the FOMC can be patient in assessing the QE program.

"The main macroeconomic surprise in the U.S. since September 2012 has been a lower rate of inflation," Bullard said. He added that near-term inflation expectations measured from the TIPS market suggested little inflation pressure before the recent FOMC meeting.

"While I expect inflation to rise during the coming quarters, I want to see evidence of such an increase before endorsing less accommodative policy action by the FOMC," Bullard said.

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- **August 15, 2013**. Presentation. "An Update on the Tapering Debate," Louisville, Kentucky.
  Presentation (pdf) (bullardlouisville15august2013finalpdf) | Press Release | Related news articles.
  *Similar remarks were also given in Paducah, Kentucky, on August 14, 2013.*
  Related news articles.

**An Update on the Tapering Debate**

August 15, 2013

St. Louis Fed President James Bullard revisited the debate on tapering the Fed's asset purchases during a Breakfast with the Fed event sponsored by the Bank's Louisville Branch. He also discussed the importance of having a press conference after each FOMC meeting instead of after every other meeting, as is the case now.

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullardlouisville15august2013final.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2013/08/15/st-louis-feds-bullard-discusses-debate-on-tapering-the-feds-asset-purchases)

Related News Articles:
• [Bullard Says Higher Yields Unlikely to Hurt Growth](http://www.bloomberg.com/news/2013-08-15/bullard-says-higher-yields-unlikely-to-hurt-growth.html), by Steve Matthews, Bloomberg.
• [Bullard Says Below-Target Inflation Warrants Fed Stimulus](http://www.bloomberg.com/news/2013-08-15/fed-s-bullard-says-below-target-inflation-warrants-stimulus.html), by Steve Matthews,