- **November 8, 2010**. Speech. "QE2 in Five Easy Pieces," (nyssa_nov_8_2010_finalpdf) delivered at the *High Profile Speaker Series*, New York Society of Security Analysts, New York City.
  Press Release.

  St. Louis Fed President Bullard Discusses "QE2 in Five Easy Pieces"

  NEW YORK CITY – In remarks Monday titled ["QE2 in Five Easy Pieces"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/nyssa_nov_8_2010_final.pdf) at a meeting of the New York Society of Security Analysts, St. Louis Fed President James Bullard discussed his perspective on the most recent Federal Open Market Committeeat a meeting of the New York Society of Security Analysts, St. Louis Fed President James Bullard discussed his perspective on the most recent Federal Open Market Committee [(FOMC)](https://www.stlouisfed.org/fomcspeak/) policy decision to pursue additional quantitative easing.policy decision to pursue additional quantitative easing.

  Bullard said that while this policy carries both risks and rewards, he believes the benefits outweigh the risks.

  [The FOMC announced](http://www.federalreserve.gov/newsevents/press/monetary/20101103a.htm) it would purchase Treasury securities at a pace of about $75 billion per month through the first half of 2011. The Committee will review the pace of its securities purchases and the overall size of the asset-purchase program on a regular basis, in light of incoming information, adjusting the program as needed to best foster maximum employment and price stability. Bullard outlined his view of this decision in five pieces:it would purchase Treasury securities at a pace of about $75 billion per month through the first half of 2011. The Committee will review the pace of its securities purchases and the overall size of the asset-purchase program on a regular basis, in light of incoming information, adjusting the program as needed to best foster maximum employment and price stability. Bullard outlined his view of this decision in five pieces:

1. Economic Slowdown and Disinflationary Trend

Bullard said that the pace of recovery had slowed, creating a disinflationary trend. Labor markets continue to be weak and he expects they will lag the recovery, as has been the case in the past two recessions.

2. Lessons from Japan

“U.S. policy should strive to avoid the possibility of a Japanese-style deflation,” Bullard said.

The Japanese experience indicates that a near-zero nominal interest rate, mildly deflationary equilibrium exists and is difficult to escape. In hisThe Japanese experience indicates that a near-zero nominal interest rate, mildly deflationary equilibrium exists and is difficult to escape. In his [paper](https://research.stlouisfed.org/publications/review/10/09/Bullard.pdf) published earlier this year, Bullard argued it may not be prudent to rely on low policy rates alone to keep the U.S. out of the deflationary outcome; he recommended that current interest rate policy be supplemented with additional quantitative easing.published earlier this year, Bullard argued it may not be prudent to rely on low policy rates alone to keep the U.S. out of the deflationary outcome; he recommended that current interest rate policy be supplemented with additional quantitative easing.

3. Monetary Policy Should Be Directed at Avoiding Further Disinflation

Bullard said the FOMC must defend its implicit inflation target from the low side as it would from the high side. Since U.S. short-term interest rates are already approximately zero, further disinflation would mean rising real interest rates in the face of a slowing pace of recovery.

4. Asset Purchases Can Substitute for Ordinary Monetary Policy

While asset purchases are sometimes viewed as unconventional, the financial market effects have been entirely conventional: real interest rates declined, inflation expectations rose, the dollar depreciated, and equity prices rose. Bullard said that because asset purchases put downward pressure on nominal interest rates further out the yield curve along with upward pressure on expected inflation, this policy puts downward pressure on real interest rates.

5. Maximum Effects on the Real Economy, While Difficult To Disentangle, Should Be Conventional

Easing of monetary policy produces its maximum impact on real variables in the economy, including output, consumption, and investment, with a lag of six to 12 months and can be difficult to disentangle, as economic performance is influenced by other developments during this period. However, the real effects on the economy from this policy action should be conventional as well.

Bullard also discussed some criticisms raised about QE2:

- On the program's lack of effectiveness, he said that the financial market effects of the program have been about what one would expect from an easing of monetary policy.
- On inflationary concerns, Bullard said that while this is a legitimate concern, the 2010 disinflationary trend is worrisome right now. He emphasized that keeping inflation near the FOMC's implicit inflation target is very important for maintaining credibility.
- On fears that the Fed is monetizing the debt, Bullard said the FOMC is committed to returning the Fed balance sheet to pre-crisis levels over time.

In addition, Bullard said it is imperative that the U.S. Congress and the President attack the long-run budget problems the nation faces. He said that Europe has given the U.S. an important wake-up call on how devastating it can be to leave long-run structural deficit problems unaddressed.

Once the Fed balance sheet returns to its normal size, Bullard noted, the U.S. Treasury Department will be left with just as much debt held by the public as before the Fed took any of these actions.

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