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Opening remarks by President James Bullard
Dialogue with the Fed: Beyond Today's Financial Headlines
Federal Reserve Bank of St. Louis
September 12, 2011

Good evening and welcome to the Federal Reserve Bank of St. Louis' "Dialogue with the Fed" discussion. I would also like to welcome those who are joining us by video conference from one of our branch cities: Memphis, Tennessee. We appreciate the time you are taking to join us tonight.

The St. Louis Fed is one of 12 Federal Reserve banks in the United States. Our reach extends well beyond St. Louis—the 8th District encompasses all or part of seven surrounding states. In addition to our Bank headquarters here in downtown St. Louis, we have branches in Little Rock, Arkansas; Louisville, Kentucky; and, as I just mentioned, Memphis, Tennessee. During recent years we have undertaken a major renovation project here in St. Louis driven in large part by the desire to meet enhanced security requirements following 9/11. As part of that renovation, we modernized our facilities including the Gateway Conference Center, which we are using this evening. I am pleased that, as this project progressed, we were able to make the decision to remain in our downtown location, which we have occupied since the early 1920s.

At the time of the Federal Reserve's creation in 1913, there was a strong belief that the U.S. central bank should be structured in such a way as to guard against its being overly influenced by the moneyed interests of New York and the political interests of Washington DC. The founders of the Fed very much wished to keep some of the power outside of the nation's financial and political centers. The result was a decentralized structure with a Board of Governors in Washington, an important Bank in New York, and 11 independent Reserve banks across the country, such as this one. These banks represent Main Street America in discussions about setting monetary policy.

As President of this Reserve Bank, I serve—along with the Presidents of the other 11 Reserve banks and Governors of the Federal Reserve Board—as a member of the Federal Open Market Committee, the group within the Federal Reserve that is responsible for monetary policy in the United States. The Federal Open Market Committee will meet later this month for a 2-day meeting and again in November and December. I have little doubt that, as always, an intense and spirited discussion about the course of future monetary policy will occur.

One of the primary concerns for the FOMC and for the nation is the subpar performance of the U.S. economy during the first half of 2011. The July GDP report indicated that the recent recession was generally deeper than previously estimated and that growth since the recession ended in mid-2009 has been weaker than previously thought. This has raised the specter in the minds of some that the U.S. economy is about to return to recession. However, I think the most likely path for the economy going forward is one of modest, albeit unspectacular, growth, and that the chances of recession are only modestly higher than they were earlier this year.

And, while disappointing economic performance certainly makes the case for an aggressive monetary policy, the FOMC has in fact provided that aggressive policy. The federal funds rate, the main policy rate of the FOMC, has been near zero since December of 2008. The near-zero rate policy has been supplemented with an additional promise to keep the rate near zero at least through the middle of 2013, almost two more years. In addition, the Fed's balance sheet has been expanded to an unprecedented size as the Committee has authorized the outright purchase of agency mortgage-backed securities and, more recently, Treasury securities, with newly-created base money. In sum, the stance of monetary policy has been appropriately calibrated to try to meet, as best we can, the unusual macroeconomic circumstances.

Now, with further slowing in the economy, some call for further monetary accommodation. Let me stress that no decision has been made on this difficult question. However, should such a decision be made, I think it is time for the Committee to discard one-time policy changes with fixed end dates. The Committee in the past never contemplated announcing several hundred basis point moves to be completed at a date certain. Yet that is how the Committee behaves today.

Research indicates quite clearly that optimal monetary policy should continuously respond to ever-changing economic conditions. As the federal funds rate was set meeting-by-meeting before December 2008, so any future policy path should be state-contingent and not of premeditated size or duration. In addition, any policy path should be reviewed carefully and seriously at each meeting for possible adjustment given the incoming data. In short, optimal monetary policy is not a one-time action or event, but a rule that takes the state of the economy and maps it into a setting for a policy instrument. To the extent the Committee can return to this principle, monetary policy will come closer to delivering the best outcomes that can be achieved through this channel.

The current economy is challenging, but I have confidence in the U.S. economic system and the FOMC—its objectivity and the scholarship and dedication of all of its members. Those of us

who sit on the Committee have a wide-ranging collection of viewpoints, but I consider that a strength. It's exactly this diversity that helps us make the best monetary policy decisions for America.

The intricacies of the economy are technical and complex. One of the lessons of the financial crisis is that we must work harder to communicate about monetary policy and the economy. The Federal Reserve has taken steps in this direction. The Chairman's new press conferences provide a new avenue of communication. Here in the 8th District, we provide extensive economic education workshops and programs to teachers. More than 3,000 teachers have accessed our programs already in 2011. Moreover, 35,000 students from 43 different states were enrolled in the online courses offered by our economic education team. I encourage you to go to our web site to learn about the many other ways we are connecting with groups and individuals across the District. Tonight's "Dialogue with the Fed" is part of this information exchange with the public.

In a moment, Julie Stackhouse, the Bank's Senior Vice-President in charge of banking supervision, will discuss lessons learned from the financial crisis. In October, Bill Emmons, an economist who has studied banks, financial markets and the economy for the past 20 years, will discuss the implications of the federal deficit. And in November, the Bank's Director of Research, Chris Waller, will discuss the ramifications of the lingering high unemployment rate in this country. Obviously, I like to leave the toughest discussions to my staff. We trust these topics are of interest to you and look forward to your feedback.

Again, from all of us here at the Federal Reserve, thank you for joining us this evening.

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