“In particular, in many countries, it is difficult for monetary policy to respond to declines in inflation when the policy rate is subject to the zero lower bound,” he said, adding that quantitative easing and forward guidance may or may not substitute effectively for more normal policies.

“Whether the U.S. or other countries are following the Taylor principle today hinges on what one thinks about unconventional monetary policy. If unconventional monetary policy is ineffective, then the global equilibrium may be overly volatile,” he said.

He added, “The alternative view may be one way to represent recent events in global financial markets in response to monetary policy decisions.” As possible examples, he cited the “taper tantrum” in 2013, the global reaction to prospective quantitative easing by the European Central Bank during the fall of 2014, and the surprise devaluation of China’s currency in August 2015.

Thus, while the conventional wisdom provides a good framework for thinking about the situation in international monetary policy before the financial crisis, Bullard said that the more radical, but less established, multiple equilibria view may be a way to describe the post-crisis global financial market reaction to central bank decisions.

Contact Us
• Laura Girresch 314-444-6166
• Anthony Kiekow 314-949-9739
• Shera Dalin 314-444-3911
• Tim Lloyd 314-444-6829

- **May 5, 2016**. Presentation. "Slow Normalization or No Normalization?" 35th Annual Economic Forecast Project, Santa Barbara County Summit, Santa Barbara, Calif.
  Presentation (pdf) (bullard-ucsb-5-may-2016pdf) | Press Release.

  Slow Normalization or No Normalization?

  May 5, 2016

St. Louis Fed President James Bullard discussed two scenarios for future rate increases: the FOMC's scenario and the market-based scenario. The former suggests a gradual pace of rate increases over the next several years, while the latter is much shallower – only a few increases over the forecast horizon. He cited evidence to back both views. For the FOMC scenario, he cited strong labor markets, waning international headwinds and inflation measurements that are closer to the 2 percent target. For the market-based scenario, the evidence included slow real GDP growth and low inflation expectations. Bullard spoke at the 35th UC Santa Barbara Economic Forecast Project hosted by the University of California, Santa Barbara.

St. Louis Fed's Bullard Discusses Two Monetary Policy Normalization Views

SANTA BARBARA, Calif. – Federal Reserve Bank of St. Louis President James Bullard discussed ["Slow Normalization or No Normalization?"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard-ucsb-5-may-2016.pdf)on Thursday during the 35th UC Santa Barbara Economic Forecast Project hosted by the University of California, Santa Barbara.

Bullard noted that recent U.S. monetary policy discussions have been dominated by issues related to the possible pace of increase in the Federal Open Market Committee's (FOMC) policy rate. He discussed two views regarding the expected policy rate path: the FOMC's scenario and the market-based scenario.

"The FOMC has laid out, via the Summary of Economic Projections, a data-dependent 'slow normalization,' whereby the nominal policy rate would gradually rise over the next several years provided the economy evolves as expected," he said. "Market-based forecasts of FOMC policy, in contrast, envision 'almost no normalization,' whereby the policy rate would be changed only a few times in the next several years."

Bullard briefly compared and contrasted each view, starting first with the