QUANTITATIVE EASING: PAST AND FUTURE

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The past

- **What QE is and why we do it.** A swap of government-issued debt of longer than 1-year maturity for a overnight deposit at the central bank, with goal of affecting long-term rates, justified by less room for stimulus on short end

- **What QE it not.** Monetary financing (reserves pay interest), helicopter money (no transfer), open-market operation (maturity mismatch), central bank digital currency (still banks), fiscal policy (liabilities swap).

- **How QE works.** Raises bond prices in short windows. Open questions: persistence, what is being signaled, which component of term premia, what effect on intermediary balance sheets, what effect on shadow cost of capital, QT versus QE, dependence on state of financial markets.

The future

- **Making it conventional.** Normalize for credibility and communication. Permanently larger balance sheet so QE separated from liquidity provision. Institutionalize minimal amount of fiscal support.

- **QE as a passive policy tool.** Distinguish market functioning and monetary policy (in name, in balance sheet). Communicate through prices. Find right frequency of changes. Role in financial crisis, and composition discussion.

- **QE and interaction of monetary and fiscal policy.** Temptation to guide long-term interest rates and become fiscally dominated. Temptation to overstate term premium over inflation premium and welcome inflating away of the debt. Temptation to enter political economy trade-offs over sovereign default, central bank independence, multiple targets and goals