Appendix 5

Yellen on Fed Purchasing Corporate Bonds and Stocks

Transcript of September, 28, 2016 [video conference](#)

Question: "Good afternoon, Chair Yellen; it's an honor to be here before you today. Recently during a symposium held at Jackson Hole, Wyoming, you made reference to the Fed's success in keeping downward pressure on long-term interest rates in part by purchasing Treasuries and mortgage securities in the open market. If the Fed had legal authority to purchase equities, how would that option impact monetary policy, if at all?"

Yellen: "Well, that's a great question, because I did mention in my remarks at Jackson Hole that the Federal Reserve is more restricted in what assets it can purchase than many central banks around the world, and, for example, now the Bank of Japan is purchasing equities and corporate bonds, and the European Central Bank is also purchasing corporate bonds.

"So these purchase programs work by trying to produce a more accommodative set of financial conditions that will improve spending. And in our case when we buy what are long-term safe assets, long-term Treasuries, and long-term mortgage-backed securities, we are directly pushing down longer-term interest rates. We want to make sure that borrowers generally face more accommodative conditions, and that would include corporate borrowers.

"Now because Treasury securities and, say, corporate securities and equities are substitutes in the portfolios of the public, when we push down yields—let's say on Treasuries—there's often and typically spillover to corporate bonds and to equities as well [such] that those rates fall or that equity prices rise, stimulating investment. But we are restricted from investing in that wider range of assets. And if we found—I think as other countries did—that [we] had reached the limits in terms of purchasing safe assets like longer-term government bonds, it could be useful to be able to intervene directly in assets where the prices have a more direct link to spending decisions.

"Now I don't think this is something we need now. When I raised it at Jackson Hole, it was speculative. But we do find ourselves now in a slower-growing global economy, one where unfortunately productivity growth has been slow and economists are coming to the conclusion that the general level of interest rates going forward is likely to be lower than it has been historically. And that means that if our economy were hit by a negative shock and the Fed needed to intervene to stimulate the economy, we [would] have less room using our conventional overnight interest-rate tool to do that. And so many researchers are thinking about what others it might be useful to have on the shelf for the future, in case we need a wider range of tools.

"But while it's a good thing to think about, it's not something that is a pressing issue now, and I should emphasize that while there could be benefits to, say, the ability to buy either equities or corporate bonds, there would also be costs as well that would have to be carefully considered in deciding if it's a good idea."

Source: Federal Reserve Bank of Kansas City.